

Section V
Findings on Compliance and Reportable Conditions Pertaining to
Internal Control Structure Used in Administering Federal Programs



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Executive Office of Public Safety/Committee on Criminal Justice Background

The Executive Office of Public Safety (EOPS) oversees 21 agencies, boards, and commissions. The Committee on Criminal Justice (Committee), within the EOPS Program Division, is the state-planning agency responsible for applying for and administering Federal and State criminal justice grants. In accordance with Chapter 6A, Section 18^{1/2}, an undersecretary within the Executive Office of Public Safety is responsible for overseeing the function and administration of the Commission.

A key federal grant program administered by this office is the Edward Byrne Memorial State and Local Law Enforcement Assistance Program (the Byrne Program). The Byrne Program, created by the Anti-Drug Abuse Act of 1988 (Public Law 100-690), places emphasis on drug-related crime, violent crime, and serious offenders, as well as multi-jurisdictional and multi-State efforts to support national drug control priorities. The Bureau of Justice Assistance makes Byrne Program Formula Funds available and awards them to states, which then make sub-awards to state and local units of governments.

The Byrne Formula Grant Program is a partnership among federal, state, and local governments to create safer communities and improved criminal justice systems, with emphasis on violent crime and serious offenders, and to enforce state and local laws that establish offenses similar to those in the federal Controlled Substances Act. Grants may be used to provide personnel, equipment, training, technical assistance, and information systems for more widespread apprehension, prosecution, adjudication, detention, and rehabilitation of offenders who violate such state and local laws.

The Office of Juvenile Justice and Delinquency Prevention (OJJDP) administer the Juvenile Accountability Incentive Block Grant (JAIBG) program. Through the JAIBG program, funds are provided as block grants to States that have implemented, or are considering implementation of legislation and/or programs promoting greater accountability in the juvenile justice system.

As of July 1, 2003, the Commission was consolidated into the Executive Office of Public Safety.

In fiscal year 2003, the Commission administered approximately \$70.4 million, of which \$29.8 million was in federal funds. The federal funding to the Commission is detailed in the accompanying Schedule of Expenditures of Federal Awards. The Commission's major programs were:

<u>CFDA #</u>	<u>Federal Program Description</u>
16.579	Byrne Formula Grant Program
16.523	Juvenile Accountability Incentive Bock Grant

Executive Office of Public Safety/Committee on Criminal Justice Findings on Compliance with Rules and Regulations

Finding Number 19: Contract and Payment Vouchers not in Compliance with Commonwealth Policies

The Committee on Criminal Justice (CCJ or Committee) contracted with a municipal police department for the establishment of a Drug Task Force. The Task Force work was completed before there was a fully executed contract. As a result, the dates of services on the payment voucher prepared by Committee personnel were falsified to generate a payment to the police department because the work was started and completed prior to the execution of the contract. The Massachusetts Management Accounting and Reporting System (MMARS) will not accept a payment transaction with service dates prior to the effective date of the contract.

According to the contract, the Task Force was to provide services from January 23, 2003 to February 28, 2003. The authorized representative from the Task Force and the Executive Director of the Committee signed the contract on January 24, 2003.

The Commonwealth's standard contract form requires the contract to be signed prior to the start date of the contract and prior to services being rendered as follows:

"Notwithstanding verbal or other representations by the parties, or an earlier start date indicated in a Contract, the effective start date of performance under a contract shall be the date a Contract has been executed by an authorized signatory of the Contractor, the Department, a later date specified in the contract or the date of any approvals required by law or regulation, whichever is later."

The Office of the State Comptroller requires Payment Vouchers (PV) to list the beginning and ending dates of the services rendered. The chart below indicates that the actual dates of service were not reflected on the PV and that the work was started and completed prior to the January 24, 2003 execution date of the contract.

Service Dates Per Subgrantee Expenditure Report	Payment Voucher and Service Contract Dates of Service	CCJ Approved Payment Voucher Date	Amount
10/01/01 – 12/31/01			\$12,013.00
01/01/02 – 03/31/02			15,793.00
04/01/02 – 06/30/02			4,550.00
07/01/02 – 09/30/02			<u>17,643.00</u>
Per Reports - Total Funds Expended			<u>\$49,999.00</u>
Total Payment	1/23/03 to 2/28/03	3/3/03	<u>\$50,000.00</u>
Over Payment			<u>\$1.00</u>

In response to the same finding noted in the fiscal year 2002 Single Audit, CCJ stated that their representatives would meet with the Office of the State Comptroller to address this issue and that the timeline for the Byrne Task Force application process would be modified to ensure that contracts were completed in time for an October 1 start up. The modification to the application process has not yet been implemented. (*Department of Justice - Byrne Formula Grant Program 16.579; Fiscal Year 2002 Report Finding 4*)

Recommendation

The Committee should ensure that the standard state contract is signed prior to the start date of the contract and prior to services being rendered. Accurate information reflecting the actual dates of service should be input into the Commonwealth's MMARS accounting system and be included on the PV. In addition, CCJ should not pay more than has been certified to being expended by a subgrantee as required by Federal Byrne Grant regulations and guidelines.

Executive Office of Public Safety/Committee on Criminal Justice Findings on Compliance with Rules and Regulations

Finding Number 19: Contract and Payment Vouchers not in Compliance with Commonwealth Policies (continued)

Department Corrective Action Plan

The Programs Division is implementing a procedure to proactively manage grant contract execution dates. Deputy Directors for each program area will be held accountable for assuring that the grant application, review, and selection process is completed in advance of the anticipated start date for the contracts and that services are not authorized in advance of the effective start date of the contract.

Due to the nature, workload, and complexity of the standard contract form, the Programs Division will take two courses of action to ensure that dates are not falsified.

Action 1: If a standard contract is not executed prior to the start date of services due to the form being filled out improperly by the seller department, a memo will be attached to the contract stating the time the contract was received by Programs Staff detailing what was filled out incorrectly so that the buyer department may still request reimbursement for that time period.

Action 2: If a standard contract form is not executed prior to the dates of service for the contract due to late submittal on the part of the seller department, the effective dates of the contract will be last signature date on the document. No requests for payment will be reimbursed that fall outside of the service dates of the contract.

No contracts will be sent to seller departments with EOPS authorized signature as was done in some instances in the past. Contracts will only be signed by EOPS personnel after they are returned by the sub-grantee. In addition, to assure the accuracy of contracts and to assure that contract amounts are consistent with MMARS amounts, only fiscal staff will be authorized to create contract documents.

Responsible person: Derek Lennon

Implementation date: 12/1/2003

Executive Office of Public Safety/Committee on Criminal Justice Findings on Compliance with Rules and Regulations

Finding Number 20: Advance Payments Made to Subrecipients

The Committee on Criminal Justice (CCJ or Committee) made advance payments to three cities and towns from the Byrne Formula Grant (BFG) and the Juvenile Accountability Incentive Block Grant (JAIBG) when the payments should have been made on a reimbursement basis. Our testing noted that in three of 34 transactions tested, advance payments totaling \$588,737 (\$375,000 for BFG and \$213,737 for JAIBG) were made; the other 31 transactions were disbursed to the subrecipients on a reimbursement basis. Because these funds were disbursed in advance, the Committee never received documentation from these three subrecipients showing that the services were provided and supporting the amount of the payments. In addition, as discussed in Finding Number 24, the Committee's monitoring of subrecipients needs improvement so that it could not provide documentation gathered during its monitoring activities that supported the amount of the advance payments. These amounts were reported on the Federal 269A, Financial Status Reports, for the periods July 1, 2002 to September 30, 2002 and October 1, 2002 to December 31, 2002 for the BFG and January 1, 2003 to March 31, 2003 for the JAIBG showing that funds have been disbursed to the subrecipient. These costs are questioned.

In addition, CCJ was unable to provide documentation showing that these advance payments did not lead to excess cash on hand at these subrecipients, which would be a violation of federal regulations. CCJ's internal control plan dated April 2002 states in part:

"B. *Administrative Controls*

2. *Cash Management/ Drawdown of funds is operated in such a manner as to minimize the time elapsed between the transfer from the U.S. Treasury and disbursement by the Office of the State Treasurer...*
- B. *LOCES drawdowns are based on specifically identified costs/ proposed disbursements, which are properly attributable to the Federal grant.*
- C. *LOCES drawdowns are requested only after the agency has actually made the related payment and/ or after the proposed disbursement has cleared the prepayment process.*
- D. *Federal funds passed through to sub-recipients, e.g., cities and towns are based on a quarterly disbursement system (in rare cases, monthly), via payment vouchers. Funds are then cleared through the Office of the State Comptroller (OSC) disbursed to subrecipients through OSC.*

The United States Department of Justice, Office of Justice Programs, Office of the Comptroller, Financial Guide, Part III, Chapter 1: Payments section entitled Minimum Cash on Hand, states in part:

"...recipient organizations should request funds based upon immediate disbursement requirements... Recipients should time their drawdown requests to ensure that Federal cash on hand is the minimum needed for disbursements to be made immediately or within a few days... The State should keep in mind that idle funds in the hands of subrecipients will impair the goals of cash management. All recipients must develop procedures for the disbursement of funds to ensure that Federal cash on hand is kept at a minimal balance."

Title 28 - Code of Federal Regulations - Chapter I -- Part 66 -- Subpart C -- Post-Award Requirements
Section 66.20 entitled Standards for financial management systems, states in part:

"(7) When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees."

Executive Office of Public Safety/Committee on Criminal Justice Findings on Compliance with Rules and Regulations

Finding Number 20: Advance Payments Made to Subrecipients (continued)

Title 28 - Code of Federal Regulations - Chapter I -- Part 66 -- Subpart C -- Post-Award Requirements
Section 66.21 entitled Payment states in part:

“(b) Basic standard. Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement ...

(c) Advances. Grantees and subgrantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their disbursement by the grantee or subgrantee.”

Title 31 - Code of Federal Regulations - Chapter II -- Part 205, Subpart A -- Rules Applicable to Federal Assistance Programs Included in a Treasury-State Agreement, section 205.11 states in part:

“(b) A State and a Federal Program Agency must limit the amount of funds transferred to the minimum required to meet a State's actual and immediate cash needs.”

Advancing funds to subrecipients that are supposed to be paid on a reimbursement basis is not in compliance with the Committee's own policies and procedures. Without receiving documented support for the payments, the Committee cannot be assured that financial reporting of federal funds received and disbursed is accurate or that subrecipients subsequently expense funds. Further, without adequate monitoring of subrecipient expenditures, CCJ cannot be assured that funds are being used in compliance with program requirements or for the intended purpose of the program or that there is not excess cash on hand at the subrecipient level. (*Department of Justice, - Byrne Formula Grant Program 16.579 and Juvenile Accountability Incentive Block Grant Program 16.523*)

Recommendation

The Committee should discontinue making advance payments to subrecipients. If, on an exception basis, advance payments are necessary, there should be documentation containing the reason for the advance, proper approval from the federal cognizant agency and appropriate notification to the OSC.

Additionally, adequate subrecipient monitoring should be implemented to ensure the appropriateness of expenditures, and accuracy of federal financial reporting.

Department Corrective Action Plan

The Programs Division will discontinue making advance payments for federal grant programs that operate on a reimbursement basis. If an advance payment is requested by a sub-grantee, Programs Division staff will validate the request from the sub-grantee and then proceed only under the following procedure:

- Receive approval from the federal grant manager;
- Notify the DOJ Comptroller's Monitoring Division; and
- Do a follow up financial site visit within a week of payment to ensure that all advanced funds have been paid and no excess cash is on hand at the sub-grantee level.

Responsible person: Derek Lennon
Implementation date: 12/1/2003

Executive Office of Public Safety/Committee on Criminal Justice Findings on Compliance with Rules and Regulations

Finding Number 21: Salaries Allocated to Federally-Funded Programs are not Supported by Proper Documentation

The Committee on Criminal Justice (CCJ or Committee) did not maintain adequate documentation for salaries charged to federal awards and there is no process in place to determine that salaries charged to a federal program reflect the employee's actual hours spent on that program. The chart below shows the number of employees and the related salary, fringe benefit and indirect costs charged to the Byrne Formula Grant (BFG) and the Juvenile Accountability Incentive Block Grant (JAIBG). A review was conducted of 12 employee payroll transactions including a review for compliance with the OMB Circular A-87 requirement for personnel activity reports for individuals charged to multiple programs. The Commission does not maintain personnel activity reports nor do they have a cost allocation system to compare actual employee's hours to hours charged to the program. Salaries, related fringe benefits, and indirect costs are charged to each grant based on a budget developed at the beginning of the fiscal year. As a result, CCJ was not in compliance with OMB Circular A-87 requirements.

OMB Circular A-87 states, in part:

"Where employees are expected to work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Such documentation must meet the following standards including a) They must reflect an after-the-fact distribution of the actual activity of each employee, b) They must account for the total activity for which each employee is compensated, c) They must be prepared at least monthly and must coincide with one or more pay periods, and d) They must be signed by the employee."

Because of the lack of documentation for salaries and a process to determine the actual salaries to be charged to the two grants, costs are questioned for the period July 1, 2002 to June 30, 2003 as follows:

Grant	Number of Employees Charged	Salaries	Fringe Benefits	Indirect Cost	Total Questioned Cost
BFG	21	\$364,305.77	\$80,147.25	\$66,717.85	\$511,170.87
JAIBG	14	224,067.55	49,294.89	32,108.91	305,471.35
		\$588,373.32	\$129,442.14	\$98,826.76	\$816,642.22

Management was aware of these federal requirements. However, the party responsible for monitoring compliance with this requirement left the Committee and no one was assigned the responsibility to continue to monitor the process. As a result of this finding noted in the fiscal year 2002 Single Audit, CCJ contacted and submitted a proposed plan to the Department of Justice (DOJ) Monitoring Division in order to address the allocation of salaries to federally-funded programs. CCJ will implement new corrective action measures in state fiscal year 2004. (*Department of Justice - Byrne Formula Grant Program 16.579 and Juvenile Accountability Incentive Block Grant 16.523; Fiscal Year 2002 Single Audit Finding 15*)

Recommendation

The Committee should establish policies and procedures that require proper support for salaries and wages charged to federal programs including periodic certifications and personnel activity reports to comply with OMB Circular A-87 and assign the responsibility of monitoring the process to a staff member to ensure continuity of the process. They should also continue to communicate with DOJ to ensure that potential corrective action taken complies with all laws, regulations, and rules.

Executive Office of Public Safety/Committee on Criminal Justice Findings on Compliance with Rules and Regulations

Finding Number 21: Salaries Allocated to Federally-Funded Programs are not Supported by Proper Documentation (continued)

Department Corrective Action Plan

The Programs Division is establishing policies and procedures to provide proper supporting documentation for all salaries charged to federal grants. A new employee sign-in sheet has been designed that will track an employee's actual time spent on each grant on a weekly basis. This allocation will periodically be compared to the salary chart designed at the beginning of the fiscal year. On a weekly basis, each employee will certify as to whether his or her work is consistent with the anticipated programmatic breakdown. When the actual work allocation deviates from the expected allocation, adjustments can be made to the salary chart as needed.

At the end of each month, the fiscal specialist, independent of the annual salary chart process, is responsible for meeting with employee's whose salary apportionment is split across grants to verify that the percentages reported on the weekly sign in sheets are accurate. On a quarterly basis, the independent fiscal specialist will submit quarterly performance percentages, for each employee paid, in part or wholly, by federal funds to the fiscal manager responsible for updating the annual salary chart.

The fiscal manager responsible for the Programs Division salary chart will transfer expenditures across federal grants so that salary allocated to specific grants correlates with actual employee performance.

Programs Division Staff has been in contact with a representative from the Department of Justice Comptroller's Monitoring Division to ensure that the new plan will be in accordance with OMB A-87.

Responsible person: Derek Lennon
Implementation date: 1/31/2004

Executive Office of Public Safety/Committee on Criminal Justice Findings on Compliance with Rules and Regulations

Finding Number 22: Buyback of Leave Time for Early Retirement Charged to Federal Funds

The Committee on Criminal Justice (CCJ or Committee) charged the Byrne Formula Grant \$697.60 in July 2002 to buyback a retiring employee's allowable unused leave time under the terms of the Commonwealth's fiscal year 2003 Early Retirement Incentive Program. This amount represented one third of a three-year buyback of which the remaining amounts are scheduled for payment in July 2003 and 2004. This was not in compliance with Office of Management and Budget (OMB) Circular A-87, Cost Principle for State, Local and Indian Tribal Governments, Section 11(d)3 states in part as follows:

"...Payments for unused leave when an employee retires or terminates employment are allowable in the year of payment provided that they are allocated as a general administrative expense to all activities of the governmental unit or component."

The Office of the State Comptroller (OSC) also issued guidance through Policy Memo #316, which states, in part:

- *"...this document is to inform departments that the direct charge of terminal leave benefits (vacation and sick leave buy out of terminating employees) to federal funds is not an allowable cost..."*
- *"departments should pay expenditures for terminal leave from federal grants first and then immediately transfer those expenditures to a central account managed by the Comptroller's Office via PCRS."*
- *"Departments seeking reimbursement for terminal leave costs through a subsequent billing to their federal grantor should not include these costs in their billing."*
- *"The Commonwealth will...insure recovery of these costs is accomplished through allocation in the statewide fringe benefit rate."*

The \$697.60 of leave time buyback was charged to the 1999 Byrne Formula Grant on July 16, 2002 and federal funds were drawn down on July 31, 2002. The Committee corrected the transaction and transferred the expenditure(s) charged against the federal grant to the state central reserve account on October 15, 2002. The OSC notified the Committee that the transfers for the buyback of leave time for fiscal years 2003 and 2004 could not be corrected until the close of said fiscal years.

The Committee adjusted the related entries for July 2003 to disburse the one third of leave time buyback for this employee. (*Department of Justice - Byrne Formula Grant Program 16.579; Fiscal Year 2002 Single Audit Finding 18*)

Recommendation

The Committee should ensure that the entries made in July 2004, for the remaining one third portion of the buyback of the retiring employee's allowable unused leave time, be properly paid and accounted for as required by OMB Circular A-87 and Policy Memo #316 and stress to its fiscal staff the importance of keeping up to date with OSC guidance.

Department Corrective Action Plan

Programs Division fiscal staff will ensure that SFY04 ERIP payments are in accordance with the Comptroller's Policy Memo #316.

Responsible person: Brenda Barton
Implementation date: 7/31/2004

Executive Office of Public Safety/Committee on Criminal Justice Findings on Compliance with Rules and Regulations

Finding Number 23: Management Financial Approval of Payment Vouchers after Disbursement of Funds

Appropriate financial managers who have signatory authority at the Committee on Criminal Justice (CCJ or Committee) approved thirteen (13) Payment Vouchers (PV) after the payment was made and entered into the Massachusetts Management Accounting and Reporting System (MMARS), the Commonwealth's accounting system, which is not in compliance with the Commonwealth's Bill Paying Policy. In addition, one (PV) was not approved. These PVs were reviewed and approved by program personnel indicating that the program goods and services were provided, however, program personnel do not have financial signing authority to approve payments to be processed through MMARS.

Appropriate management employees at the Committee approved thirteen PVs totaling \$647,653 after the Commonwealth had disbursed payments. These PVs were approved from two to thirty-five days after being entered into MMARS.

The Office of the State Comptroller's MMARS Policy Memo # 289, Commonwealth's Bill Paying Policy Ensuring Bill Paying Compliance, states, in part:

- "B. *Manage invoice review/ approval process:*
There are 5 basic steps in the bill payment process.
Step 1 - Receipt of Invoice
Step 2 - Review Process
Step 3 - Approval of Expense
Step 4 - Financial Approval
Step 5 - Entry into MMARS

Each department should review its current steps to process payments. This may result in the identification of steps duplicated unnecessarily, in different levels of the department, sometimes resulting in significant payment delays. An evaluation of the value added at each of these redundant points could result in a streamlined process and reduce the processing time in your timeline. A risk assessment of dollar threshold or program specific concerns may result in only certain payments requiring additional review."

Without appropriate financial management oversight, adequate review and sign-off of PVs prior to entry to the accounting system and disbursement of funds, the Committee cannot be assured that payments made are appropriate, within grant guidelines and used for the intended purpose of the program. (*Department of Justice - Byrne Formula Grant Program 16.579 and Juvenile Accountability Incentive Block Grant Program 16.523*)

Recommendation

Appropriate Committee financial managers should approve PVs prior to being entered to the MMARS accounting system and payment made. This should include consideration of adding to their authorized signatory list so that there is additional approved staff to sign to review pertinent documentation to ensure timely and accurate bill paying.

Department Corrective Action Plan

The Programs Division fiscal staff in conjunction with the Executive Office of Public Safety Secretariat fiscal staff has reviewed the current bill paying process for the Programs Division and developed a new draft process that will be consistent with the Comptroller's MMARS Policy Memo #289.

Executive Office of Public Safety/Committee on Criminal Justice Findings on Compliance with Rules and Regulations

Finding Number 23: Management Financial Approval of Payment Vouchers after Disbursement of Funds (continued)

Department Corrective Action Plan (continued)

Comptroller Bill Paying Policy Procedures (Per CTR Policy Memo #289 pg 2 sec B)

Manage invoice review/approval process:

There are 5 basic steps in the bill payment process:

Step 1 – Receipt of Invoice

Step 2 – Review Process

Step 3 – Approval of Expense

Step 4 – Financial Approval

Step 5 – Entry into MMARS

New Consolidated Process for Quarterlies/PVs Compliant with OSC Bill Paying Policy

1. Program Manager — Receive PV
2. Program Manager — Check to ensure complete progress and financial package
3. Check to ensure spending in line with approved budget
 - If spending is not aligned contact sub-grantee to see why
 - If not corrected within five days send PV back to sub-grantee with reason attached
4. Program Manager — Check quarterly financial for accuracy
 - If minor problem, send an email to sub-grantee notifying the changes you would like to make. Wait for approval from sub-grantee. Make changes and attach written/note acknowledging approval.
 - If major problem and not resolved in five days send back to sub-grantee.
5. Program Manager — Initial and date quarterly financial
6. Program Manager — Check off appropriate quarterly financial/progress report boxes on database (if this step is not done, payment will not be processed.)
7. Program Manager — Send PV to designated fiscal manager to ensure that information entered on PV corresponds to quarterly financial.
8. Fiscal Manager — Send PV with Deputy Director payment authorization form attached to appropriate Deputy Director.
9. Deputy Director — Check PV and quarterly report to verify that reimbursement request is consistent with program guidelines
10. Deputy Director — Sign Deputy Director payment authorization form and send entire package to fiscal officer (TBD by delegation amount) to sign off on MMARS form.
11. Fiscal Officer — Check spending amount on PV and pertinent information (appropriation, ref doc #, etc.)
12. Fiscal Officer — Sign off on PV
13. Fiscal Officer — Send to fiscal manager for entering onto MMARS and stamping hard copy “Paid;” put to a scheduled status; and post to database and stamp hardcopy “Posted.”
14. Fiscal Manager — Print out OHPV and OLPV and attach to a copy of original (Printing of OHPV and OLPV is optional) and return to program manager to file in sub-grantee grant file when scheduled Payment/Settlement Date is established.
15. Fiscal Manager — File original in fiscal files

**Executive Office of Public Safety/Committee on Criminal Justice
Findings on Compliance with Rules and Regulations**

Finding Number 23: Management Financial Approval of Payment Vouchers after Disbursement of Funds (continued)

Department Corrective Action Plan (continued)

This proposed new procedure is currently being implemented. After one quarter of implementation, fiscal staff may revise the procedure if steps are found to be duplicative. However, the new policy for bill paying in the Programs Division will follow the five steps outlined in Comptroller's MMARS Policy Memo for bill paying procedures.

Responsible person: Derek Lennon

Implementation date: 2/1/2004

Executive Office of Public Safety/Committee on Criminal Justice Findings on Compliance with Rules and Regulations

Finding Number 24: Monitoring of Subrecipients Needs Improvement

The Committee on Criminal Justice (CCJ or Committee) needs to improve its financial monitoring procedures of subrecipients to ensure federal funds are spent in accordance with contract requirements and to ensure that they have adequate systems of accounting and internal controls.

The Committee disburses federal funds to subrecipients for the Byrne Formula Grant and Juvenile Accountability Incentive Block Grant. According to OMB Circular A-133, Subpart D, Section 400 (d)(3), the responsibilities of pass-through entities include:

“Monitoring the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations and provisions of contract or grant agreements and that performance goals are achieved.”

The Circular, Subpart D, Section 400(d), also states:

“A pass-through entity shall . . . for the Federal awards it makes . . . (5) Issue a management decision on audit findings within six months after receipt of the subrecipient’s audit report and ensure that the subrecipient takes appropriate and timely corrective action.”

OMB Circular A-133, March 2003 Compliance Supplement, Part 3, Section M *Subrecipient Monitoring*, further states that:

“Monitoring activities may take various forms, such as reviewing reports submitted by the subrecipient, performing site visits to the subrecipient to review financial and programmatic records and observe operations, arranging for agreed-upon procedures, and engagements for certain aspects of subrecipient activities, such as reviewing the subrecipient’s single audit or program-specific audit results, and evaluating audit findings and the subrecipient’s corrective action plan.”

In addition to federal regulations, the Commonwealth of Massachusetts’ Procurement Policies and Procedures Handbook, Chapter 5, Contract Execution and Management Monitoring and Evaluating Contractor Performance and Compliance, states in part:

“The Commonwealth has a responsibility to conduct monitoring and evaluation of the commodities and services it purchases. These activities can assist in identifying and reducing fiscal and programmatic risk as early as possible thus protecting both public funds and clients being served. Contract managers are responsible for monitoring contractor performance and other issues that arise during the life of the contract. In developing monitoring and evaluation procedures, the Commonwealth, through its departments should strive for methods that rely on, among other things, national or industry standards and which are coordinated, cost efficient and appropriate to the level of risk to the Commonwealth in the purchase of the commodities or services.”

The Committee issues grants to cities and towns for certain law enforcement activities. If a grantee meets the criteria for having an OMB Circular A-133 audit conducted, CCJ requires that the audit be submitted to CCJ so it can monitor the subrecipient’s financial activities. However, the Committee does not have a system in place to determine which grantees are required to submit an OMB Circular A-133 audit.

The subrecipients are required by their contracts to obtain and submit annual financial statement audits to comply with OMB Circular A-133, if applicable. Although the Committee relies on audit reports for monitoring activities, it did not receive reports from all the subrecipients that were required to submit them. CCJ personnel also indicated that there is no process to review financial records maintained at subrecipients that are not subject to A-133 audits. The officials explained that over five years ago they had a financial

Executive Office of Public Safety/Committee on Criminal Justice Findings on Compliance with Rules and Regulations

Finding Number 24: Monitoring of Subrecipients Needs Improvement (continued)

evaluation unit that reviewed subrecipients' accounting systems and internal controls, but they no longer have staff that perform this function.

CCJ officials stated that they conduct financial monitoring activities through quarterly financial reports submitted by subrecipients, a quarterly programmatic report, on-site programmatic reviews, and phone contacts. However, there is no process to review financial records to ensure that subrecipients have an adequate system of accounting and internal controls.

In response to this same finding in the fiscal year 2002 Single Audit, CCJ indicated that they would implement a policy to conduct a random sample of on-site visits to 10% of subrecipients each year. Information reviewed would include documents reviewed by monitoring staff, audit report findings, copies of receipts, time sheets and other pertinent documents. However, due to a change in administration at CCJ, a different process will be developed and implemented in state fiscal year 2004.

By not monitoring subrecipient financial activity, including receiving all required audit reports, CCJ cannot ensure that federal awards are used for authorized purposes in compliance with contracts, laws, and regulations, or that fiscal records are being maintained and that subrecipients have adequate systems of accounting and internal controls. (*Department of Justice - Byrne Formula Grant Program 16.579 and Juvenile Accountability Incentive Block Grant 16.523; Fiscal Year 2002 Single Audit Finding 14*)

Recommendation

The Committee needs to establish and implement a process to (1) perform financial reviews of subrecipient records to ensure that they have adequate systems of accounting and internal controls, (2) perform on-site reviews of subrecipient records to ensure federal awards are used for authorized purposes in compliance with laws, regulations and provisions of contracts or grant agreements and that performance goals are achieved; and (3) enforce policies that require applicable subrecipients to obtain and submit annual financial statement audits to comply with OMB circular A-133.

Furthermore, CCJ should review each subrecipient's financial statement audit report and evaluate audit findings and the subrecipient's corrective action plan. CCJ should issue a management decision on audit findings within six months of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

Department Corrective Action Plan

The EOPS Programs Division has taken the initiative to develop a monitoring plan for all state and federal programs administered by EOPS. Every effort has been made to keep the requirements similar across programs. The monitoring plan includes a certain percentage of programs to be monitored by fiscal staff who will review the following: accurate accounting systems; effective internal controls in place; and are spending funds in compliance with state and federal regulations.

EOPS Programs Division Staff have actively performed programmatic monitoring/technical assistance through desk reviews and site visits. Beginning in fiscal year 2004 there is a standard policy for the minimum monitoring requirements for the office detailing the number of total desk reviews, programmatic site visits and financial site visits as a percentage of total sub-grantees for each program.

Executive Office of Public Safety/Committee on Criminal Justice Findings on Compliance with Rules and Regulations

Finding Number 24: Monitoring of Subrecipients Needs Improvement (continued)

Department Corrective Action Plan (continued)

Due to the nature and number of sub-grantees, the percentages vary in some programs. In addition, most programs will require more desk reviews than programmatic site visits and more programmatic site visits than financial visits; this is a result of staffing issues and the need to have staff in the office to perform grant administration functions.

With regard to the A-133 audit reporting requirement, all EOPS federal grant application instructions include a “Sub-grantee Requirements” section stating:

“Local units of government whose towns or municipalities that expend \$500,000 or more in a year in Federal awards shall have a single or program-specific audit conducted for that year in accordance with the provisions of the Office of Management and Budget’s circular A-133 <http://www.whitehouse.gov/omb/circulars/a133/a133.html>. Applicant local units of government must submit a copy of their [most recent Fiscal Year] audit along with their grant applications.”

The subrecipient grant conditions that must be signed by an authorized official upon receiving an award from EOPS also contain a clause reminding sub-grantees that an A-133 audit report “should be made annually but not less frequently than every two years.” The grant conditions document is being revised to state that the audit report must also be submitted to EOPS if an audit is completed during the project period. The EOPS Programs Division fiscal unit will develop and maintain a database of audits received according to community and year. Before fiscal site visits are conducted, the fiscal staff will review any audit findings and address the findings, if applicable, with the subrecipient during the on-site visit.

Responsible person: Lynn Wright
Implementation date: 12/1/2003

Executive Office of Public Safety/Committee on Criminal Justice Findings on Compliance with Rules and Regulations

Finding Number 25: Inadequate Supporting Documentation for Expenditures

The Committee on Criminal Justice (CCJ or Committee) pays federal funds to subrecipients for the reimbursement of program and administrative expenses without sufficient documentation supporting the expenditures. As a result, thirty-three transactions tested totaling \$2,073,565 in grant payments to subrecipients for fiscal year 2003 were inadequately supported. The total federal funds awarded by CCJ through contracts with subrecipients under the Byrne Formula Grant Program and the Juvenile Accountability Incentive Block Grant Program (JAIBG) was over \$5.8 million for the period July 1, 2002 to June 30, 2003.

The Commonwealth of Massachusetts Procurement Policies and Procedures Handbook, Chapter 5, Contracts Execution and Management: Payments, states, in part:

“The Contractor shall be required to provide relevant supporting documentation to substantiate any claim for payment of an invoice or to support payments already made by the department.”

OMB Circular A-133 places the responsibility on pass-through entities to monitor the activities of the subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of grant agreements.

Subrecipients submit payment vouchers for reimbursement of expenses along with its quarterly financial report without a breakdown or supporting detail of the expenses such as, payroll, supplies, and equipment. Without such information, CCJ cannot be assured that federal funds were disbursed for authorized purposes. Our review found that 33 payment transactions totaling \$2,073,564.98 to subrecipients during fiscal year 2002 were inadequately supported, as outlined below:

<u>Grant</u>	<u>Number of Expenditures</u>	<u>Total Questioned Costs</u>
BFG	19	\$1,748,637.06
JAIBG	14	324,927.92
	33	\$2,073,564.98

Because of this finding in the fiscal year 2002 Single Audit, CCJ indicated that a policy would be implemented to conduct a random sample of on-site visits to 10% of subrecipients each year. Information reviewed would include documents reviewed by monitoring staff, audit report findings, copies of receipts, time sheets and other pertinent documents. However, due to the change in administration at CCJ, the sampling procedure was not implemented and Committee officials indicated that a different process will be developed and implemented in state fiscal year 2004. (*Department of Justice - Byrne Formula Grant Program 16.579 and Juvenile Accountability Incentive Block Grant Program 16.523; Fiscal Year 2002 Single Audit Finding 16*)

Recommendation

The Committee needs to implement a procedure that provides it with the information necessary to support payments made to its subrecipients. This procedure along with implementation of the recommendation in Finding Number 24 will provide the Committee with assurances that its subrecipients are being reimbursed for authorized expenses as well complying with all required rules and regulations.

Department Corrective Action Plan

EOPS staff will require supporting invoice documentation for any single item of equipment purchased in excess of \$5,000.00 to be submitted with the quarterly report. Other expenditures and time and attendance records will be reviewed and verified on fiscal (up to 10%) and programmatic site visits (up to 15%) as to the various federal programs.

Executive Office of Public Safety/Committee on Criminal Justice Findings on Compliance with Rules and Regulations

Finding Number 25: Inadequate Supporting Documentation for Expenditures (continued)

Department Corrective Action Plan (continued)

Program Managers are required to initial quarterly financial reports to ensure that expenditures are aligned with the approved budget and there is adequate supporting backup documentation.

In addition quarterly financial reports contain the following certification that must be signed by the authorized official from the subrecipient agency: "I certify that this report, schedules, statements and the expenses for which payment is requested are true, correct, and complete and were made in accordance with the appropriate Federal and State regulations and that the articles or services listed were (or will be) necessary for, and are to be used solely for the purpose specified in the award for this project." The EOPS sub-grant conditions include specific language about subrecipients' responsibilities concerning records retention.

Responsible person: Lynn Wright
Implementation date: 1/1/2004

Executive Office of Public Safety/Committee on Criminal Justice Findings on Compliance with Rules and Regulations

Finding Number 26: Improvements Needed over Reconciliations

The Committee on Criminal Justice (CCJ or Committee) is not performing regular reconciliations between its records, the Massachusetts Management Accounting and Reporting System (MMARS), and the U.S. Department of Justice's LOCES system (the federal cash management system). Committee financial management officials who have recently been put in place indicated that it simply had not been the practice of the prior administration to perform such reconciliations.

One of the items noted during the course of this audit was that a cash transfer to the Byrne Formula Grant Program by the Office of the Comptroller (OSC) should have been posted to the Juvenile Accountability Incentive Block Grant. When inquiry was made with Committee officials, they were unable to explain what happened or why it happened.

The Office of the State Comptroller's, Internal Control Guide for Departments, Chapter Three, Collected revenue, states:

Collected Revenue

Collected revenues are those that are paid to the department at the point where a service/good has been provided. The department should develop internal controls to ensure that staff who collect or process revenue understand the requirements of state finance law as well as governing policies and procedures issued by the Office of the Comptroller and/or the department. The staff responsible for recording collected revenue should carefully document all revenue activity in accordance with sound management practices and all governing policies. Collected revenue should be deposited into a Commonwealth account on a daily basis. Deposits should be reconciled daily by an individual independent of the collection process. Collected revenue should be reconciled monthly to the state accounting system records and to the monthly bank statement.

Collected revenue should be credited to appropriate revenue source and fund, as authorized in statute.

Untimely reconciliations can result in incorrect or invalid entries being made to the Commonwealth's accounting system and the inability to identify all revenues that are due to the Commonwealth. Additionally, it could lead to inaccurate reporting of federal funds received and discrepancies between grants resulting in ineligible drawdowns and reimbursement of funds to federal agencies. (*Department of Justice - Byrne Formula Grant Program 16.579 and Juvenile Accountability Incentive Block Grant Program 16.523*)

Recommendation

The Committee should design and implement policies and procedures to perform monthly reconciliations between department records, the MMARS system and the LOCES (federal cash management system) to ensure accuracy of records and reporting, to identify discrepancies between grants and to ensure that the Commonwealth is receiving all revenue that it is due.

Department Corrective Action Plan

Programs Division fiscal staff will attempt to work with staff at the State Treasurer's Office to receive monthly federal grant transfer statements for grant funds overseen by the EOPS Programs Division. A cooperative partnership with the Treasurer's office will enable Programs Division fiscal staff to run monthly subaccount warehouse drawdown queries; match the requested draws with federal reimbursements received by the State Treasurer's Office; and develop quarterly actual/outstanding grant balances.

Executive Office of Public Safety/Committee on Criminal Justice Findings on Compliance with Rules and Regulations

Finding Number 26: Improvements Needed over Reconciliations (continued)

Department Corrective Action Plan (continued)

The timing of having actual grant balances is dependent upon completion of office databases for every “active” grant administered by the Programs Division. Upon completion of databases, monthly reconciliations will follow.

Responsible person: Derek Lennon

Implementation date: Case by case with complete office compliance expected 10/1/04

Executive Office of Public Safety/Committee on Criminal Justice Findings on Compliance with Rules and Regulations

Finding Number 27: Department of Justice Review and Recommendations for Corrective Action

The United States Department of Justice (DOJ), Office of Justice Programs, Monitoring Division performed a financial monitoring and assistance review at the Executive Office of Public Safety (EOPS) from March 26–28, 2003. In a letter dated, May 12, 2003, DOJ made three recommendations relating to the Byrne Formula Grant Program for fiscal years 2000, 2001, and 2002. EOPS responded to the DOJ on June 11, 2003. The DOJ recommendations and the EOPS corrective action steps are as follows:

1. The EOPS commingled the grant funds for their Byrne Formula awards. Funds for these grants were combined into one account in the EOPS's accounting system. As a result, the exact expenditures for each grant could not be determined, and the amounts reported on the Financial Status Report (FSRs) could not be substantiated.

The Office of Justice Programs' (OJP's) Financial Guide, states that each award must be accounted for separately. Recipients and subrecipients are prohibited from commingling funds on either a program-by-program or a project-by-project basis. Grantee accounting systems must ensure that the agency funds are not commingled and must account for each award separately.

EOPS' response was that it would:

- Develop a database to track each award by year.
- Reconcile all transactions for federal fiscal years 2001, 2002 and 2003.
- Improve accuracy of quarterly reports.
- Develop routine reconciliation procedures.

2. The EOPS's monitoring procedures for their state pass-through awards were not adequate to ensure compliance with fiscal and program requirements. The EOPS does not obtain progress reports from the state pass-through agencies. Additionally, expenditures reported by these agencies were not reviewed for support, accuracy, and compliance with program guidelines.

EOPS responded that it had:

- Increased monitoring.
- Increased review capabilities for state grantee records.
- Increased grant manager accountability for grant expenditures.
- Automated tracking of grantee reporting.

3. The EOPS maintained excess cash-on-hand that appeared to exceed their immediate disbursement needs for awards 2000DBMU0025 and 2001DBBX0025. This could be attributed, in part, to the commingling of funds and the advance of funds to sub-grantees. EOPS' response to this recommendation was the same as for number 1 above.

In addition to the responses to the individual recommendations, EOPS stated that it intended to implement these procedures for all grants it administered within the year.

EOPS indicated that it completed the reconciliations for fiscal years 2001, 2002, and 2003 and is in the process of implementing the other corrective action measures. (*Department of Justice – Byrne Formula Grant Program 16.579; US Department of Justice, Office of Justice Programs, Financial Monitoring and Assistance Report dated May 12, 2003, recommendations 1-3*)

Executive Office of Public Safety/Committee on Criminal Justice Findings on Compliance with Rules and Regulations

Finding Number 27: Department of Justice Review and Recommendations for Corrective Action (continued)

Recommendation

EOPS should continue to implement the corrective actions it indicated to the DOJ that it would.

Department Corrective Action Plan

The Programs Division will continue to implement the corrective actions indicated to DOJ, with completion of the Byrne database and actual balances for active Byrne grants expected by 11/1/2003. Programs Division staff projects all grants administered by the office to have complete databases and actual balances by 11/1/2004.

Responsible person: Derek Lennon

Implementation date: 11/1/2004

Executive Office of Public Safety/Committee on Criminal Justice Findings on Material Weaknesses

Finding Number 28: Executive Office Review and Federal Investigation of Byrne Formula Grant Activities

Former Executive Office of Public Safety/Committee on Criminal Justice (Committee) employees and subrecipients are the subject of a federal investigation. The investigation concerns the Byrne Formula Grant funding received during fiscal year 2003. As indicated in the Background section, the Byrne Formula Grant is administered by the Committee. During fiscal year 2003, the Committee expended \$10,999,270 in Byrne Formula Grant funds and these costs are all questioned.

The Secretary for the Executive Office of Public Safety assumed his role in January 2003. At that time, a complete review was undertaken of the management, oversight, and grant making practices of the Executive Office. During this review, it came to the attention of the Executive Office that the Byrne Formula Grant Program may have lacked adequate and appropriate internal controls and that the grants awarded to subrecipients under this federal program may not have been managed in compliance with Byrne Formula Grant and Committee guidelines.

In addition to the Executive Office's own review, there is an ongoing federal investigation involving former employees and subrecipients of Byrne Formula Grant funding.

The prior and current year Single Audits disclosed a number of deficiencies in the administration of the Byrne Formula Grant Program. The fiscal year 2002 Single Audit included five findings involving the Byrne Formula Grant with questioned costs totaling \$920,678. This year's Single Audit of the Committee contains 10 findings, all of which involve the Byrne Formula Grant. The questioned costs for the Byrne Program detailed in Findings Number 19, 20, and 24 total \$2,634,808, which are included in the total expenditures, questioned above. (*Department of Justice – Byrne Formula Grant Program 16.579*)

Recommendation

The Executive Office should complete its internal review of all of its activities and programs with particular emphasis on the administration of the Byrne Formula Grant Program. To the extent practical and appropriate, the Executive Office should coordinate its internal review with the federal investigation.

The Executive Office should also consider contacting the Office of the State Auditor in compliance with Chapter 647 of the Acts of 1989, which requires that all unaccounted for variances, losses, shortages or thefts of funds or property shall be immediately reported to the state auditor's office, who shall review the matter to determine the amount involved which shall be reported to appropriate management and law enforcement officials.

Department Corrective Action Plan

The Executive Office of Public Safety Programs Division will continue to review the office policies and procedures for awarding and monitoring Federal funds. Accountability of Federal funds was an influencing factor in consolidating the Executive Office of Public Safety Programs Division into the Secretariat in July of 2003. Since the consolidation many organizational changes, and additional policies and procedures have been developed to enhance internal controls in the Programs Division, including:

Re-Organization of the Programs Division: The organizational structure of the Programs Division has drastically changed. Three deputy directors have assumed the responsibilities of the former executive director. The change enables more oversight, by senior management, of the day-to-day operations of each grant to ensure compliance with Federal regulations. In conjunction with the previous stated organization change, the fiscal department of Programs Division now reports to the chief fiscal officer of the Secretariat. The fiscal re-organization promotes impartial decision making in fiscal matters.

Executive Office of Public Safety/Committee on Criminal Justice Findings on Material Weaknesses

Finding Number 28: Executive Office Review and Federal Investigation of Byrne Formula Grant Activities (continued)

Department Corrective Action Plan (continued)

Open and Competitive Grant Making Process: To the extent possible, Federal Grant funds will be disbursed through an open and public competitive process, as determined appropriate by the department, in accordance with Federal requirements and state grant procurement regulations. The Programs Division is in the process of developing more formal methods to review grant proposals (e.g. peer review panels, etc.) to improve the effectiveness of grant making and to limit the ability of Programs Division staff to provide unfair advantages to sub-grantees.

Bill Paying Standard Policy: The Programs Division has established standard policies and procedures for processing and verifying sub-grantee reimbursement requests. The new process adds two levels of verification from programmatic staff to ensure that payments to sub-grantees are legitimate. The process is laid out, in detail, in the corrective action plan for finding 22. The program manager initial and Deputy Director Payment Authorization form, steps five (5) and ten (10) respectively, ensure fiscal agents that expenses being reimbursed are allowable. Further, all requests for reimbursement must be supported by adequate documentation of the expenditure. The Programs Division is developing a written protocol for sub-grantee documentation requirements.

Additional Policies and Procedures: In addition to the above-mentioned standard policies and procedures the Programs Division has adopted a time and attendance/payroll policy for allocating salaries to federal programs (Finding 21); developed a contract verification and processing policy to ensure that contract packages meet both federal and state standard requirements; and developed a fiscal and programmatic site visit plan (Finding 23) to ensure that sub-grantees are using Federal funds for their intended purposes. Consistent with Audit Finding No. 28 the Executive Office of Public Safety has notified the State Auditor's Office of potential variances in the Byrne Grant Program pursuant to St. 1989, c. 647. In addition to the internal review commenced in early 2003 of the Byrne Program, the Executive Office of Public Safety continues to work with state and federal authorities to ensure that all variances are thoroughly investigated and referred for subsequent action where appropriate.

Responsible Person: Jane M. Wiseman
Implementation Date: For Re-Organization—October 2003
For Competitive Grant Making—Spring 2004 (FFY04 Funds)
For Bill Paying Standard Policy—March 2004
For Contract Package Policy—January 2004

Executive Office of Public Safety/Committee on Criminal Justice Findings not Repeated from Prior Years

1. The Committee classified a transaction improperly on the Massachusetts Management Accounting and Reporting System (MMARS). The fiscal year 2003 audit disclosed that CCJ properly classified on MMARS the 50 selected transactions selected for testing. *(Fiscal Year 2002 Single Audit Finding 17)*
 2. The Committee drew down \$584,226.27 in federal funds against a closed grant. The fiscal year 2003 audit disclosed that the proper adjustment has been made. *(Fiscal Year 2002 Single Audit Finding 19)*
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Office of the Comptroller Findings on Compliance with Rules and Regulations

Finding Number 29: Additional Costs included in the Statewide Cost Allocation Plan

The Office of the Comptroller (Office) included \$1,062,112 in additional costs in computing the 2003 Statewide Cost Allocation Plan. These costs affected indirect cost rates and departmental cost allocation plans.

The Office is responsible for preparing the Statewide Cost Allocation Plan (Plan). The Plan identifies certain departments known as Central Services Agencies (CSA), which provide administrative services on behalf of other departments. The allowable costs of those CSAs are computed and allocated on a variety of equitable bases to user departments through the Plan. The U.S. Department of Health and Human Services, Division of Cost Allocation (DCA) negotiates and approves the Plan for use. The total of the applicable approved CSA allocations is incorporated in a department's indirect cost rate proposal or cost allocation plan, which is then used to charge federal programs for administrative costs.

Costs as shown in MMARS and allocable to the CSAs in accordance with OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* were used to prepare the 2003 Plan based on 2001 actual costs. During the audit of the Plan, the following was noted:

- The direct-billed single audit costs to departments with major federal award programs were also included in the allocated costs of the Office of the Comptroller. As a result, there was an overstatement of \$525,000.
- Costs for information technology relating to processing the payroll were duplicated in two different CSAs (Office of the Comptroller and Human Resources Division) resulting in the Plan being overstated by \$529,937.
- A rate of \$9 was used to compute the costs for health and welfare benefits paid on behalf of employees for all CSAs except the Office of the State Treasurer. The approved rate for 2001 was \$8. This resulted in an overstatement of \$27,484.
- The formula for adding payroll cost for the Office of the Comptroller included a figure twice resulting in \$9,711 of additional costs being claimed.
- Medicare costs related to the central service administrative pool for the Executive Office for Administration and Finance was not included in the Plan thereby understating costs by \$30,020.

The total overstatement, as a result of these observations was \$1,062,112. The exact impact on federal programs for these total overstatements can only be determined when the CSAs are adjusted and the revised allocations are used to recompute department indirect cost rates or cost allocation plans.

Other issues were also noted in the Plan for which the dollar impact on federal programs could not readily be determined:

- The total cost for two CSAs were understated by \$40,000 and \$6,563. Since these costs were for unallowable activities, it effected the allocation of costs between allowable and unallowable activities within the CSAs and between the CSAs and other departments.

Office of the Comptroller Findings on Compliance with Rules and Regulations

Finding Number 29: Additional Costs included in the Statewide Cost Allocation Plan (continued)

- Some costs were distributed between allowable and unallowable functions within CSAs using an apportionment formula rather than specific identification of costs for those activities. In one agency, this resulted in a \$3,437 understatement of costs, which effected the subsequent allocations between allowable and unallowable functions.
- Over and understatements of costs resulting from the final determination of mail, computer, and telecommunications rates by the Information Technology Division were not included in computing the CSAs fiscal year 2001 actual costs as agreed to with DCA. Office personnel stated that since the 2001 rates were not completed by the time of Plan preparation, the Office delayed incorporating the adjustments until the fiscal year 2004 Plan. (*Unknown Federal Programs*)

Recommendation

The Office of the Comptroller should carefully review all Statewide Cost Allocation Plans to ensure costs are complete, accurate, based on approved agreements for the proper fiscal period and net of applicable credits prior to submission.

Department Corrective Action Plan

The Office of the Comptroller will increase its oversight of the development of the SWCAP beginning with the next (FY2005) SWCAP submission. Any variance noted in the FY2003 and the previously submitted and approved FY2004 SWCAP will be reflected as an adjustment in the FY2005 submission slated for Spring 2004. Documented analytical review will take place between the FY2004 submission by department and item and FY2005 submission by department and item, explaining all variances beyond 10%, the federal limit.

Responsible person: Eric Berman

Implementation date: Submission of the FY2005 Statewide Cost Allocation Plan (SWCAP)

Office of the Comptroller Findings on Compliance with Rules and Regulations

Finding Number 30: Documentation Supporting the Statewide Cost Allocation Agreement Needs Improvement

The Office of the Comptroller (Office) needs to improve the documentation it prepares to support those sections of the Statewide Cost Allocation Agreement for which it has responsibility.

One unit within the Office is responsible for negotiating the Statewide Cost Allocation Agreement (Agreement), which is negotiated with U.S. Department of Health and Human Services, Division of Cost Allocation (DCA). Section I of the Agreement, identifies and allocates the allowable costs of Central Service Agencies (CSA) to user departments. In preparation for Section I negotiations, the Office prepares and submits a Statewide Cost Allocation Plan (Plan) which is certified as complying with OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* (Circular) by the Deputy Comptroller. Section II of the Agreement, lists those fringe benefits and other services that are directly billed to user departments.

During the audit of Section I of the Plan prepared by the Office, the following was noted:

- A reconciliation was not prepared between all appropriation and revenue accounts for some central services agencies, which support the certified financial statements, and the amounts that were ultimately used in the Plan.
- The Schedule of Costs to be Allocated by Function for all agencies did not readily tie to Schedule A, the Approved Fixed Central Service Allocations, as agreed to with the U.S. Department of Health and Human Services, Division of Cost Allocation (DCA). Intermediary calculations showing which CSA functions were not allocated was also not prepared.
- The inclusion or exclusion of costs, such as depreciation, was not consistent throughout the CSAs.
- The written methodology was not sufficiently detailed to provide step-by-step instruction on constructing the Plan and identifying areas that may need to be adjusted when changes occur within CSAs. The methodology was copied from the previous year without determining whether it was appropriate.

Included in Section II of the Agreement, are services that are furnished and billed to user departments. Some of these services such as Unemployment Insurance Medicare tax, Universal Health Insurance, and the fringe benefit rate, which includes group insurance, pension costs, and terminal leave, are administered by the Office. Other services such as motor vehicles, the data center and state auditor costs are administered by other departments. OMB Circular A-87 and ASMB C-10 *Cost Principles and Procedures for Developing Cost Allocation Plans and Indirect Cost Rates for Agreements with the Federal Government*, the implementation guide (Guide) for Circular A-87, specifies certain minimum documentation in Sections 4.5.1, 4.5.2 and 4.7 of the Guide that must be prepared for internal service funds and other Section II billed services, which are charged to federal awards. The Office did not prepare a reconciliation of retained earnings/cumulative earnings/losses for unemployment Insurance, Medicare and Universal Health Insurance. Office personnel indicated that this type of documentation had not been requested by DCA to date.

The exact impact on Federal programs for these could not be determined. (*Unknown Federal Programs*)

Office of the Comptroller Findings on Compliance with Rules and Regulations

Finding Number 30: Documentation Supporting the Statewide Cost Allocation Agreement Needs Improvement (continued)

Recommendation

The Office of the Comptroller should ensure that all costs and revenues applicable to each central service agency are reconciled to the Statewide Cost Allocation Plan. Any CSA function that is not included in the final allocation should be indicated. Finally, the written methodology should describe an overall approach of which specific cost elements will and will not be included for all CSAs and what areas should be considered in the future thereby providing guidance when changes occur within central service agencies. Finally, all required documentation should be prepared for any Section II costs for which the Office has responsibility.

Department Corrective Action Plan

A “top to bottom” review will be performed on the draft FY2005 SWCAP before submission to the US Office of Health and Human Services. The written methodology is usually not submitted to EOHHS for review. However, any substantive changes between the practices used for the FY2004 and prior submissions will be forwarded along to EOHHS in the form, at the very least, of an annotated matrix of changes attached to the submission.

A reconciliation will be performed for each CSA identifying department-wide expenditures and revenues as reported on the foundation reports used for the audited financial statements. From this starting point, allocable costs will be separated from non-allocable costs with a corresponding determination made for revenues that offset allocable costs.

Additionally, the Schedule of Costs to be Allocated by Function will be revised to more easily reconcile to Schedule A, Annual Allocations for Roll Forward.

A reconciliation of costs to revenues will be developed each year for the Section II costs managed by OSC. For those Section II chargebacks maintained by other departments, OSC will require certification with OMB A-87 and comparable reconciliations.

Responsible person: Eric Berman

Implementation date: Submission of the FY2005 Statewide Cost Allocation Plan (SWCAP)

Division of Medical Assistance Background

The Division of Medical Assistance (Division) is the designated single state agency responsible for administering the program of medical assistance. The Division assumed its responsibilities beginning in fiscal year 1994.

During fiscal year 2003, the Division administered approximately \$5.9 billion in carrying out its program. Federal funds amounted to approximately \$3.1 billion.

The federal funding to the Division is detailed in the accompanying Schedule of Expenditures of Federal Awards. The Division's major programs were:

<u>CFDA#</u>	<u>Federal Program Description</u>
93.778	Medical Assistance Program
93.775	State Medicaid Fraud Control Units
93.777	State Survey and Certification of Health Care Providers and Suppliers
93.767	Children's Health Insurance Plan

Division of Medical Assistance Findings on Reportable Conditions

Finding Number 31: The Recording of Aged Accounts Receivable Needs to be Reviewed on a Timelier Basis

Three of six BARS selections tested are not likely to be collected and should be written-off. The six selections represent receivables due to the Division of Medical Assistance (Division) from the estate, another from a health insurance carrier or accident lien of individuals who received MassHealth/Family Assistance benefits. An aid category is assigned to each individual within the eligibility system (MA-21) or MMIS, passed through from BEACON, a Department of Transitional Assistance eligibility system. Each month the receivable amounts due are posted to BARS based on the information uploaded from MA-21 provided from the Division's delegated accounts receivable system or from contracted recovery service vendors.

All of these cases are classified in the greater than 90 days aged receivables category and discussion with appropriate personnel at the Division revealed that although the Division is entitled to the receivable amounts tested, the likelihood of collecting the amount in three of the cases (two accident recovery and one estate recovery) is remote. Therefore, the receivable overstatement for these three cases is \$803,380.

As stated above, all of these selections are classified in the greater than 90 days aged receivables category. The age of these invalid receivable balances and the number of errors found in the sample (last year's audit disclosed 8 similar issues out of 10 BARS selections tested) indicates that the Division is not performing a timely review of these amounts and that there is a significant risk of overstatement of the receivable balance. In the preceding three years, we reported that the Division needed to improve its tracking and recording of receivables, uncollectibles and write-offs and recommended that it work with its contractors to obtain aging reports of its receivables and the individual claims that were deemed uncollectible and those to be written-off. Division personnel explained that they were working with the Comptroller's Office to develop policies and procedures that will result in more accurate tracking and recording of receivables, uncollectibles, and write-offs.

Additionally, this year's testing of BARS transactions noted that there was not proper segregation of duties in the processing of receivables transactions (increases, decreases, cash receipts). One person prepared, posted, and approved all of the receivable transactions tested. (*Department of Health and Human Services – Medical Assistance Program 93.778; Fiscal Year 2000; 2002 Single Audit Finding 27*)

Recommendation

The Division needs to implement a process of monitoring aged accounts receivable balances so that timely corrective action can be taken, where appropriate. In addition, the Division should apply the appropriate level of segregation of duties to avoid the same employee preparing, posting, and approving receivable transactions.

Department Corrective Action Plan

The Accounting Unit under the direction of Josiah Emuoyibo is assuming responsibility to improve the agency's tracking and recording of receivables, uncollectibles, and write-offs. The Accounting Unit will work with the program managers from the Benefit Coordination & Recoveries Unit to obtain aging reports of its receivables on a regular basis and the individual claims that are deemed uncollectible where necessary and those to be written-off where necessary.

The Accounting Unit will also implement appropriate level of segregation of duties to avoid the same - employee preparing, posting, and approving receivable transactions.

Division of Medical Assistance Findings on Reportable Conditions

Finding Number 31: The Recording of Aged Accounts Receivable Needs to be Reviewed on a Timelier Basis (continued)

Department Corrective Action Plan (continued)

The Benefit Coordination & Recoveries Unit program managers who are responsible for the accident (casualty) recovery services program and the estate recovery program are reviewing their policy and procedures and are implementing steps to improve their review of cases that have been inactive for more than two years old. Although cases may be inactive, it may take several years to collect monies. The program managers are implementing the review process as follows:

Casualty Recovery Unit

- ~ The program managers will review open cases that have no activity since June 2000.
- ~ Open cases that are closed will be assigned an in-active status. If those cases are re-opened, a new accounts receivable will be posted.
- ~ The aforementioned actions will occur quarterly effective this quarter (QE 12/31/03).
- ~ Open cases that are related to malpractice or workers compensation will remain as active cases due to the fact that it may take more than several years to receive an outcome.
- ~ Other recommendations will be considered going forward.

Estate Recovery Unit

- ~ The program managers will conduct a quarterly review of open, but inactive cases. Open cases that are inactive will be closed and assigned an in-active status based on the criteria listed below:

Voluntary Cases: If a claim is older than 2 years the case will be closed and assigned an in-active status. If those cases are re-opened, a new accounts receivable will be posted.

Non-Voluntary Cases: Cases with claims older than 4 years with available assets will be referred to Legal for further administrative and/or legal actions.

Non-Voluntary Cases: Cases in which the date of claim is older than 2 years will be reviewed by the case specialist on a case by case basis to determine the potential for future collection. Cases in which assets are no longer available for collection will be closed and assigned an in-active status.

Responsible person: Michael Guertin (BC&R)/Edward Tom (Revenue)/Josiah Emuoyibo/(Accounting)
Implementation date: November 2003

Division of Medical Assistance Findings on Reportable Conditions

Finding Number 32: A Report on a Service Organization's Internal Controls is Needed

The Division of Medical Assistance (Division) needs to obtain an independent auditor's report on the internal controls in place at its service organization (Statement on Auditing Standards #70).

The Division uses a service organization to process Medicaid claims, transfer claims to the Medicaid Management Information System (MMIS), perform provider enrollment and credentialing, and maintain provider files. The Division has been reducing its reliance on this service organization over the last few years by moving functions like security administration, system maintenance and enhancement functions, computer operations, and payment processing to state functions. Each remaining contractor function is monitored by the Division's Claims Operations and Provider Operations Unit. In 2003, the Division hired a consultant to perform an assessment to improve the efficiency and effectiveness of these operations.

The Division contracted with an independent auditing firm to develop and conduct a series of agreed-upon procedures and to test the service organization's internal controls over the claims processing, data transfer and provider enrollment and credentialing operations for the year ended June 30, 2002. However, the Division did obtain such a report for the year ended June 30, 2003 even though the service organization provided the same services it did in the prior year. Division officials explained that since the reduction in services and the routine monitoring of the remaining services by Division staff, a full SAS 70 internal control report was not needed.

Medicaid is material to the financial statements of the Commonwealth of Massachusetts and, as such, it is critical that the internal controls in place at a service organization, which provides services for this program, be assessed and reported on. (*Department of Health and Human Services – Medical Assistance Program 93.778*)

Recommendation

The Division should plan to hire an independent auditing firm to perform the necessary and proper procedures to assess and report on the internal controls in place at the service organization for the year ended June 30, 2003. The Division should continue to obtain this assurance for as long as this service organization provides these important services.

Department Corrective Action Plan

The Division agrees that it is critical to assess and report on the internal controls in place at our service organizations and it does have a process in place to obtain independent assessments of each of its service organizations. The Division, however, did not complete an independent audit of our claims processing service organization in 2003 and agrees that an independent assessment of its claims processing servicing organization should be done as it has been in prior years. We would like to point out that the claims processing service organization is highly dependent upon Division systems and operations and closely monitored by Division management.

The Division will obtain an independent assessment of the claims processing service organization's internal controls based upon generally accepted auditing standards during fiscal year 2004.

Responsible person: Frank McNamara, Renee Washington
Implementation date: During fiscal year 2004 to be available by June 30, 2004

Division of Medical Assistance/Department of Mental Retardation Findings on Compliance with Rules and Regulations

Finding Number 33: Untimely Filing of Plan of Care and Level of Care Documents

Based on the testing conducted in last year's audit, one out of 22 selections tested for waiver eligibility under the Medicaid waiver program administered for the Division of Medical Assistance (Division) by the Department of Mental Retardation (Department) did not have Plan of Care and Level of Care documents on file as of the date of service, October 1 – 31, 2001. The Level of Care document was subsequently filed on November 27, 2001 and the Plan of Care document on June 14, 2002. Last year's corrective action plan in response to the finding indicated that an additional Department software application was designed in 2000 and 2001 to track all waiver participants and their waiver eligibility criteria and documentation and that during the last year a staff person had been assigned the responsibility of Waiver Coordinator to oversee waiver eligibility and documentation.

Federal regulation, 42 CFR 441.302, states that "Unless the Medicaid agency provides the following satisfactory assurances to HCFA, HCFA will not grant a waiver under this subpart and may terminate a waiver already granted.... An evaluation of the need for the level of care provided in a hospital, a NF, or an ICF/MR when there is a reasonable indication that a recipient might need the services in the near future (that is, a month or less) unless he or she receives home or community-based services."

This year's audit did not disclose a similar occurrence, however, the Department has indicated that although the database implementation has been completed, it has implemented a new level of care assessment process during the past year and this has, in some cases, had the effect of staggering the generation of Plan of Care and Level of Care forms. In preparation for the renewal of the current waiver, service coordinators have been asked not to complete a new level of care form until the next ISP date that gives the appearance of level of care and plan of care being out of sync.

The risk that the Department incurs by not filing these documents on a timely basis is that benefits could be provided to persons who are potentially ineligible to receive benefits at the time of service. (*Department of Health and Human Services – Medical Assistance Program 93.778; Fiscal Year 2002 Single Audit Finding 26*)

Recommendation

The Department needs to complete its new assessment process and continue to improve its eligibility procedures to ensure that all the necessary and required documentation is complete and current including a control measure to identify, in advance, those cases whose documentation is about to expire. The Division, as the single state agency for Medicaid, needs to more closely monitor the Department's operation of the waiver program.

Department Corrective Action Plan

The fiscal year 2002 finding that the process for generating timely level of care and plan of care documents has been addressed. Since October 2002, the DMR has been using the electronic Waiver Program Tracking Database to assure timely filing of plan of care and level of care documents.

With respect to the statement in finding no. 3, that "service coordinators have been asked not to complete a new level of care form until the next ISP which gives the appearance of level of care and plan of care being out of sync," that statement requires further clarification. It was the use of the HCBS Assessment Tool to determine level of care that service coordinators were instructed to phase in over the course of several months and to be synchronized with the annual service planning meeting. Thus, for the period of time between the introduction of the HCBS Assessment Tool and the next annual service planning meeting, current level of care forms (Level of Care Assurance) were in place for each of the waiver participants. Those assurance forms were the result of determinations made by DMR based on the process in place at that time.

**Division of Medical Assistance/Department of Mental Retardation
Findings on Compliance with Rules and Regulations**

**Finding Number 33: Untimely Filing of Plan of Care and Level of Care Documents
(continued)**

Department Corrective Action Plan (continued)

The Department of Mental Retardation has completed its new level of care assessment process and has begun implementation of the revised process for assuring that relevant documentation is complete and current, and for identifying those that are about to expire. This process will include the DMR Waiver Coordinator regularly reviewing the Waiver Program Tracking Database; the DMR Area Offices regularly reviewing the records of the waiver participants; and, the DMR Waiver Coordinator reviewing the records of at least 10% of all Waiver participants on an annual basis. This information will be reported by DMR to the Division of Medical Assistance.

Responsible person: Neil Lazzara, Waiver Program Coordinator
Implementation date: November 2003

Division of Medical Assistance Findings not Repeated from Prior Years

1. The Division of Medical Assistance (Division) needed to monitor the redetermination process to ensure that redeterminations were performed within the timeframe required by the regulations. No late redeterminations were found during the fiscal year 2003 testing. *(Fiscal Year 2002 Single Audit Finding 20)*
 2. The Division needed to enhance its SCHIP eligibility review procedures to ensure that identifiable and foreseeable changes, such as age, are monitored and acted upon in a timely manner. The Division made a programming change during fiscal year to redetermine households with expired benefits for members who turned 19 years old. *(Fiscal Year Single Audit Finding 21)*
 3. The Division made one overpayment on Personal Need Account to a Medicaid recipient who lived in a nursing home. No instances of this type of overpayment were noted during the 2003 testing. *(Fiscal Year 2002 Single Audit Finding 22)*
 4. The Division needed to refund to the federal government the recoupments of overpayments in a timelier manner. No instances of late refunds to the federal government for recoupments were noted during the 2003 testing. *(Fiscal Year 2002 Single Audit Finding 23)*
 5. The Division reimbursed some drugs using a calculation that did not appear to mirror the calculation specified in Commonwealth regulations. During the fiscal year 2003, the Division, jointly with the Division of HealthCare Finance & Policy clarified the drug pricing methodology by issuing a new regulation. *(Fiscal Year 2002 Single Audit Finding 24)*
 6. The Division through the Executive Office of Elder Affairs did not properly renew the certification for one provider. All providers tested during the fiscal year 2003 audit had proper certifications and no instances of this type were noted. *(Fiscal Year 2002 Single Audit Finding 25)*
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Department of Education Background

The Department of Education (Department) is the state agency responsible for administering the laws and regulations pertaining to elementary and secondary education, for distributing state and federal funds to local educational agencies (LEAs), and for improving the quality of education for all public school students in the Commonwealth. The primary responsibility for the operation of schools rests with local and regional school committees. The Department carries out its mandate by providing assistance and funds to the schools, by setting standards, by administering regulations, and by collecting data on the condition of education.

During fiscal year 2003, the Department administered approximately \$3.8 billion of state funds, and approximately \$600 million of federal funds.

The federal funding to this Department is detailed in the accompanying Schedule of Expenditures of Federal Awards. The Department's major programs were:

<u>CFDA#</u>	<u>Federal Program Description</u>
84.010	Title I Grants to Local Education Agencies
84.027	Special Education – State Grants
84.173	Special Education – Preschool Grants
84.367	Improving Teacher Quality – State Grants
10.558	Child and Adult Food Care Program
10.553	School Breakfast Program
10.555	National School Lunch Program
10.556	Special Milk Program for Children
10.559	Summer Food Service Programs for Children

Department of Education

Findings on Compliance with Rules and Regulations

Finding Number 34: Inadequate Administrative Expenditures Procedures

The Department of Education (Department) does not have the internal controls in place to properly budget, procure, approve, and classify the administrative expenditures necessary to manage its federal and state programs.

Twenty administrative expenditures were tested from four major federal programs. Six of the selections were payroll expenditures, which are discussed in finding number 35. For the fourteen non-payroll administrative expenditures tested, problems were identified in six of these cases. The problems can be classified as follows:

Federal program inappropriately charged without an approved cost allocation plan

Five of these expenditures, totaling \$21,518, were charged to federal programs without an approved cost allocation plan. These costs are questioned.

Discussions with Department officials disclosed that central general and administrative technology and central technology administrative expenditures that benefit all of the Department's programs are often totally charged to federal programs based on budgeted amounts or because no state funds are available to pay the bills. While charging federal programs for a portion of these central administrative expenditures may be appropriate, the charges should be made in accordance with an approved cost allocation plan so that the federal programs are only charged in proportion to the benefit received.

During fiscal year 2003, the Department issued a Request for Response to hire a consultant to prepare a cost allocation plan. The Department has hired a consultant and the plan has been prepared and submitted to the U.S. Department of Education for approval.

State payment regulations not complied with

One of the expenditures for \$11,700 selected for testing was charged to a federal grant that it did not benefit. The Department, through a series of transactions "made the grants whole" and prior to year-end, the federal grant was charged an amount that was allowable. However, the method used was not in compliance with state regulations in that it did not follow the correct procedure to correct the error and it exceeded the 30 days allowed for processing payments.

As noted in prior years' reports, problems with the Department's controls and/or its willingness to circumvent state regulations to expedite or correct errors over administrative expenditures have been the subject of reports issued by the Massachusetts State Auditor's Office and the U.S. Department of Agriculture. (*Department of Education – Title I Grants to Local Education Agencies 84.010, Improving Teacher Quality State Grants 84.367; Department of Agriculture – Child and Adult Food Care Program 10.558, National School Lunch Program 10.555; Fiscal Year 2001; 2002 Single Audit Finding 28*)

Recommendation

The recommendation made in 2001 was that policies and procedures needed to be established to provide assurance that all state and federal procurement laws and regulations were adhered to. Progress has been made in that a consultant has developed a cost allocation plan and the Department has submitted it for federal approval. However, the Department has taken no action by pending that approval.

Department of Education

Findings on Compliance with Rules and Regulations

Finding Number 34: Inadequate Administrative Expenditures Procedures (continued)

Department Corrective Action Plan

Federal program inappropriately charged without an approved cost allocation plan:

As stated in this finding, the Department has already developed a cost allocation plan (CAP) that was reviewed by the Massachusetts Comptroller's Office and was submitted to the United States Department of Education (USDOE) in April 2003. The CAP is currently being reviewed by USDOE and is expected to be finalized before January 1, 2004.

Implementation of this CAP and the corresponding new indirect cost rate along with the Department's ability to retain a portion of these indirect funds will allow the Department to stop its past practice of direct charging federal funds for indirect activities. Thereby, eliminating this finding.

State payment regulations not complied with:

The Department has written and disseminated financial controls to comply with all state finance laws and regulations. The \$11,700 expenditure in question that was charged to a wrong encumbrance document, was to be charged to the federal grant, but was victim to numerous administrative oversights. This payment had been corrected prior to the audit. The charges were proper and valid but the correction method used was not the approved system.

We will continue to provide additional training to our Budget staff, Procurement and Payment staff, and center fiscal liaisons to ensure compliance with state finance laws, regulations, and policies.

Responsible person: Anthony DeLorenzo

Implementation date: April 1, 2004

Department of Education Findings on Compliance with Rules and Regulations

Finding Number 35: System for Charging and Adjusting Salaries to Federal Programs Needs Further Improvement

The Department of Education (Department) has improved its system for charging and adjusting the salaries charged to federal programs. Further improvements, however, are still needed.

The system for charging and adjusting salaries has been an issue in the Single Audit since 1995. The U.S. Department of Education (USDOE) made a site visit to the Department in March 2003 to review the corrective action taken by the Department as a result of findings in the fiscal year 2001 Single Audit report and to determine if the Department had corrected the deficiencies that resulted in numerous findings in the 1997 through 2000 Single Audit reports. USDOE issued a Site Visit Report (Report) on April 10, 2003 with some recommendations for improvement. The Department responded to the Report on May 5, 2003. USDOE then issued a Program Determination Letter (PDL) on June 3, 2003 stating that because the Department had agreed to implement USDOE's recommendations it considered the Department's time distribution system acceptable and considered the salary finding resolved and closed. The 2003 Single Audit found that the Department has not implemented all of the USDOE recommendations.

The Report recommended that the Personnel Activity Reports (PARs) be reviewed and adjustments made as necessary for the four individuals identified during the site visit as having apparent material differences between the allowable amount charged to a federal program and the actual amount charged. The fiscal year 2003 Single Audit disclosed that the appropriate adjustments were made for these four individuals. However, five of the 10 payroll transactions selected for testing during the 2003 audit had material differences, i.e., greater than \$5,000, between the allowable and actual amounts charged. These cases need to be reviewed and adjusted as necessary.

Another of the PDL recommendations, to ensure compliance with OMB Circular A-87 that was partially implemented by the Department was to compare allowable vs. actual charges on a quarterly basis and make a quarterly adjustment if the comparison shows a difference greater than 10%. A review of the third quarter (January – March) charges showed that the Department had completed the reconciliation and some adjustments were made at the beginning of June. An analysis of the reconciliation showed that 12 of the 19 federal programs had differences greater than 10%, but adjustments were made for only six of the 12 programs. In addition, as indicated above, the USDOE recommended that adjustments be made to individuals when the difference was greater than 10%. The Department's adjustments were made on a program-by-program basis not on an individual-by-individual basis.

During the site visit, USDOE also inquired about whether supervisors and personnel of direct activities had received training in completing PARs and whether there were written instructions to employees. The Report also recommended the appointment of a time distribution liaison for each cluster. The training and the appointment of liaisons were implemented but the Department has not yet prepared written instructions for employees.

The final Report recommendation was that the bundling of programs into an "other" category for salary reconciliation and adjustment purposes should be discontinued and that reconciliations and adjustments be made on a program by program basis. The Department has not discontinued the use of the "other" category and Department officials believe that it will be difficult to eliminate it altogether. They explained that they will attempt to eliminate its materiality. (*Department of Education - Title I Grants to Local Education Agencies 84.010, Special Education – State Grants 84.027, Safe and Drug-Free Schools and Communities 84.186, Vocational Education 84.048, Bilingual Education 84.194, Education for Homeless Children and Youth 84.196, Adult Education 84.002, Innovative Education Program Strategies 84.298; United States Department of Education, Indirect Cost Group, Site Visit Report Dated April 10, 2003*)

Department of Education

Findings on Compliance with Rules and Regulations

Finding Number 35: System for Charging and Adjusting Salaries to Federal Programs Needs Further Improvement (continued)

Recommendation

The Department should continue to implement the recommendations made by the USDOE for the charging and adjusting of salaries to federal programs.

Department Corrective Action Plan

The Department started implementing the USDOE recommendations soon after the Program Determination Letter (PDL) was issued in June of 2003 and has implemented additional recommendations in fiscal year 2004.

We have eliminated in fiscal year 2004 the bundling of the “Other Category” as identified in the PDL. We have disseminated written instructions to all staff that prepare and complete the Payroll Activity Report.

We are current with our reconciliation process and have made adjusting entries to all federal programs that were overcharged in excess of 10% of the budgeted salaries for each federal program. Federal programs that were undercharged were not adjusted at the close of fiscal year 2003. All federal programs in excess of a 10% variance will be adjusted in fiscal year 2004 and in the future.

We are committed to continue our progress to further refine our reporting and reconciliation process consistent with the recommendations of USDOE.

Responsible person: Anthony DeLorenzo
Implementation date: October 31, 2003

Department of Education Findings on Compliance with Rules and Regulations

Finding Number 36: Vocational Education Program Administration Matching and Maintenance of Effort Requirements Not Met

The Department of Education (Department) did not meet the matching and maintenance of effort requirements for the administration of the Vocational Education Program. The Department missed the administration matching requirement by \$66,588 and the maintenance of effort (MOE) requirement by \$116,394. These costs are questioned.

According to federal regulation, 34 CFR 403.181(a), the State is required to match from non-federal sources and on a dollar-for-dollar basis, the funds reserved for administration of the State Plan for the Vocational Education Program. Federal regulation 34 CFR 403.181(c) states that a State must provide from non-Federal sources for State administration under the Perkins Act an amount that is not less than the amount provided by the State from non-Federal sources for state administrative costs for the preceding fiscal or program year.

The Commonwealth of Massachusetts, like most states, is having financial problems and as such did not have the funds available as in prior years to provide for the administration of the Vocational Education Program. Our review of the Department's analysis for the matching and MOE administration funds showed that the Department included rent and utilities costs without a cost allocation plan. These costs were excluded from the amount of state funds provided for the administration of the Vocational Education Program in arriving at the questioned costs cited above. A U. S. Department of Education Program Determination Letter dated March 28, 2003 required a cost allocation plan to support the charging of rent and utilities used as part of the State's matching administrative costs. (*Department of Education – Vocational Education, Basic Grants to States 84.048*)

Recommendation

The Department should work with state Administration and Finance officials to seek the funding necessary to meet federal requirements. Additionally, the cost allocation plan currently in process should be implemented as soon as possible.

Department Corrective Action Plan

The Department will work with Administration and Finance officials to secure the necessary funding to meet both federal requirements. However, given the fiscal constraints of the Commonwealth the Department will work to limit the use of federal administration funds that must be matched while allocating additional state funds to Vocational Education activities. We will also closely monitor the types of costs used in calculating the state match.

In addition, the cost allocation plan, which is expected to be approved during fiscal year 2004, should allow the Department to use state funds towards both these federal requirements.

Responsible person: Jeffrey Wheeler and Anthony DeLorenzo
Implementation date: June 30, 2004

Department of Education Findings on Compliance with Rules and Regulations

Finding Number 37: Lack of Data to Measure Earmarking

The Department of Education (Department) continues to not have a system in place that allows for the identification and classification of expenditures to document that the Special Education earmarking requirements for State set-asides are met.

IDEA, Part B (20 USC Section 1411(f)(1)) and Preschool Grants Program (20 USC 1419(d)) set forth the amount of funds a State must distribute to its Local Education Agencies (LEAs) on a formula basis and the amount it can set aside for administration, other State-level activities, and capacity building grants to its LEAs.

The Special Education funding provided to states can be spent over a 27-month period. However, when the funds are distributed to the LEAs, the maximums established for the appropriation account used to distribute the funds, in practice, are closely matched to the annual expenditures. Therefore, the LEAs are really only given the school year (12 months) to spend the money. However, the administrative funds maintained by the Department are carried from year-to-year and do not indicate to which grant year the funds are related. The Department is unable to identify the specific grant/fiscal year from which a carry-forward amount is brought forth. Department personnel indicate that the length of allowable grant spending and the difference in the time periods covered by the federal fiscal year and the state fiscal year render them unable to perform the accounting or analysis to illustrate that the funds were spent in accordance with the earmarking requirements.

In fiscal year 2003 in an attempt to correct the problem, the Department implemented an account system in MMARS that tracks distributions to LEAs, administrative expenditures, and other expenditures all in one account for each of the grants. The individual expenditures are coded in the account according to category, i.e., administrative expenditure, training and assistance, and distribution to LEAs. However, the Department failed to undertake an analysis to determine if the earmarking requirements were, in fact, met for the grant associated with fiscal year 2003 recorded in this “new” account or the grants from prior years that were expended in fiscal year 2003 and recorded in the “old” accounts.

At the time of the audit when asked for support that the earmarking requirements had been met, Department personnel created an analysis of the MMARS account for the State Grant for fiscal year 2003 delineating the spending on administration, training and assistance and distribution. However, the analysis did not provide adequate detail to permit a review of current year expenditures for allowability, nor did it address any carry-over amounts from prior years. The spending reflected in the analysis differed significantly from the budget for the year and the amount budgeted for distribution differed by \$12,373,825 from the amount the Grants Management Unit recorded as the amount for distribution. (See Finding Number 41)

As in prior years, testing could not be designed to independently determine if the Department has met the earmarking requirements because Department personnel explain that the statewide and Department systems cannot differentiate between grant year (27 months) and fiscal year (12 months). The Department does not have a system in place to monitor compliance with federal earmarking requirements. (*Department of Education – Special Education, State Grants 84.027 and Preschool Grants 84.173; Fiscal Year 2001; Fiscal Year 2002 Single Audit Finding 34*)

Department of Education

Findings on Compliance with Rules and Regulations

Finding Number 37: Lack of Data to Measure Earmarking (continued)

Recommendation

The Department must review the multiple federal financial analysis and reporting requirements, the currently available MMARS and MMARS data warehouse resources, as well as the Department's internal data management systems and then design an overall financial management and reporting system. The Department should consult with other Commonwealth departments that receive federal funding that can be expended over more than one year to determine how they are complying with all federal requirements. The Department should also implement a monthly or quarterly process by which expenditures are tracked by individual expenditure type, i.e., distribution, administrative expense, and other training and assistance expense, as well as by the fiscal year in which the expenditures was granted. This process will allow Department personnel to identify the type of spending that occurred in the one single account as well as the grant year to which the expenditure is related, to facilitate the identification of carry-forward funds. It will also ensure that an internal control is in place throughout the year and not simply at the end of the year.

Department Corrective Action Plan

The Department will establish a Financial Management and Reporting Process that will allow for the tracking, identification, and classification of expenditures to document the earmarking requirements for the set asides established as part of our special education funding. The process will allow for the tracking and monitoring of expenditures within the four (4) earmarking categories: A. Minimum Flow-through to LEAs (Entitlement Allocation); B. Minimum Capacity Building & Improvement (Required Distribution); C. Maximum Administration Set-Aside; and, D. Maximum State Set-Aside (Technical Assistance) over the total grant award period (27 months – Tydings Amendment).

Summary spreadsheets for each grant award will be maintained in the Budget Office. These will include a summary of all expenditures by the required set asides for fiscal year 2003, the Balance Forward amounts into fiscal year 2004, fiscal year 2004 expenditures, and, any Balance Forward amounts into fiscal year 2005 (ending the 27 month budget period) and corresponding expenditures.

Internal controls will be reviewed to ensure the reliability of data documented in the management and reporting process.

On-going training and technical assistance will be provided to Department administrators and fiscal liaisons on the implementation and monitoring of this process.

We expect to implement this process during fiscal year 2004 for federal programs that have earmarking requirements under the Tydings Amendment.

Responsible person: Jeanne Elby
Implementation date: April 1, 2004

Department of Education

Findings on Compliance with Rules and Regulations

Finding Number 38: Maintenance of Effort System Needs Improvement

The Department of Education (Department) needs to continue to improve the process and procedures it uses to determine the Local Education Agencies' (LEAs) compliance with the maintenance of effort requirements.

The data used to determine if an LEA met the maintenance of effort requirements is the End-of-Year Report submitted by all LEAs. The LEA fiscal year ends on June 30 and End-of-Year Reports are due by September of that year (for example, the June 30, 2002 fiscal year is reported at the end of September of 2002). Under the maintenance of effort requirements an LEA may receive funds under an applicable program only if the State finds that the combined fiscal effort per student or the aggregate expenditures of the LEA from state and local funds for free public education for the preceding year was not less than 90% of the combined fiscal effort or aggregate expenditures for the second preceding year. Therefore, the Department has to compare the second prior year data to the prior year data to develop the relationships on an LEA and per student basis to measure maintenance of effort (for example, fiscal year 2001 is compared to fiscal year 2002 to determine if the grant for 2004 needs to be adjusted).

An analysis comparing fiscal years 2001 and 2002 was provided. It should be noted that the fiscal year 2001 total expenditures was also provided for the prior year audit. There was more than a \$20 million variance between the amount reported as 2001 in 2001 and the amount reported as 2001 in 2002. When questioned, the Director of School Business Services (Director), who is responsible for the End-of-Year Report process, the database built from those reports and the preparation of analysis of that data, explained that the analysis provided in the prior year was incorrect in that it was missing a necessary category of administrative expenditures. According to the Director, the analysis provided in the current year includes the correct expenditures for both 2001 and 2002 to allow for the comparison of like amounts.

In addition, since there were still no written procedures as to how the calculations are performed, the Director had to prepare written directions. None of these recalculations could be verified without oral explanations from the Director.

In response to prior audit findings, the Department established procedures and due dates for the summarization and interpretation of the data used in the maintenance of effort work in order to meet the requirement that the subsequent grant award be reduced to reflect any failure of an LEA to meet maintenance of effort. That Department set schedule was not met in fiscal year 2003 and the school year 2004 grant awards for Title I were calculated before the determinations of maintenance of effort levels were done. Two LEAs failed to meet the maintenance of effort test for the year ended June 30, 2002. The Department did not issue the appropriate letters until July 16, 2003. (*Department of Education – Title I Grants to Local Educational Agencies 84.010; Fiscal Year 2002 Single Audit Finding 35*)

Recommendation

Many of the federally-funded programs have maintenance of effort requirements that must be complied with. The Department should determine all of the federal programs that have similar requirements and then develop a system and written procedures to measure LEA compliance for all programs. These procedures should include verification of the reports and keeping track of changes posted to the database to ensure its accuracy as well as a review process to ensure that more than one person understands the calculations.

Department of Education
Findings on Compliance with Rules and Regulations

Finding Number 38: Maintenance of Effort System Needs Improvement (continued)

Department Corrective Action Plan

The Department has consistently used the End of Year Pupil & Financial Report as the basis for determining the Maintenance of Effort requirements of school districts. This report is the data instrument required to be filed by all school districts and contains the necessary detail to complete the analysis. The Department has increased the reliability of the data reported by ensuring timely editing, and most recently requiring each district's report be annually audited by independent certified public accountants. Data elements in the report have changed based on the information needs of the Department. These changes required us to revise the crosswalk that was given to the auditors.

Due to staffing concerns we were unable to complete the analysis by our self imposed deadline of May 15. Our analysis was completed after that date and program staff immediately followed up with the two districts that were not in compliance with the maintenance of effort requirement. Therefore, the issue was addressed during the fiscal year 2004 grant cycle and corrective action was taken. In the future, every effort will be made to complete the report analysis by May 15.

Responsible person: John Sullivan
Implementation date: May 15, 2004

Department of Education Findings on Compliance with Rules and Regulations

Finding Number 39: Errors in Federal Reports

The Department of Education (Department) does not have adequate control procedures in place to verify the amounts included in federal reports.

The Department is required to prepare the Annual Report for State Revenue Matching, FNS 13 Report, for the School Breakfast and National School Lunch Programs. A clerical error of \$7,669 was noted in the one report selected for audit. The actual amount calculated for the match in the State Funded Breakfast Program was understated by the error. This error, although not material to the program, highlights in conjunction with errors cited in prior years, that there is an underlying lack of control procedures in place to ensure the accuracy of reports. (*Department of Agriculture - School Breakfast Program 10.553; Fiscal Year 2002 Single Audit Finding 38*)

Recommendation

As stated in the prior year, the Department needs to better understand the control environment that should be in place for the reporting of information on all federal programs. A Department-wide approach must be taken to establishing the parameters for adequate control over reporting. Within that framework, procedures for all reports should be documented to ensure that there is a step to verify the amounts to be reported and to verify the accuracy of the calculations done to develop the reports.

Department Corrective Action Plan

We previously wrote and implemented the policies and procedures recommended in last year's finding. We will review our procedures in this area to note any possible strengthening of them. We have updated our controls, re-enforcing the need to have a second person review all reports for accuracy prior to submission.

We regret the clerical oversight that allowed the error in the above-mentioned report. We have already submitted a corrected report to USDA.

Responsible person: Katie Millett and Neal Gilbert
Implementation date: October 31, 2003

Department of Education

Findings on Compliance with Rules and Regulations

Finding Number 40: Measurement of the Title I 15% Carryover and the Amount Reallocated Needs Improvement

The Department of Education (Department) did not properly measure the 15% carryover allowed for each Local Education Agency (LEA) nor reallocate the excess as required.

“An LEA that receives \$50,000 or more in Title I, Part A funds cannot carryover beyond the initial 15 months of availability more than 15 percent of the Title I, Part A funds. An SEA (State Education Agency) may grant a waiver for the percentage limitation once every three years if the request is reasonable and necessary. An SEA may also grant a waiver in any fiscal year in which supplemental appropriations for Title I become available for obligation.” (Section 1127 of ESEA (20 USC 6339).

The Department provided a worksheet to support the calculation of the allowable carryover amount for each LEA, the expenditures of the LEA, calculation of the amount for carryover into FY 2003 and the amount available for reallocation in FY 2003. Three of the five LEAs selected for testing appeared to exceed the allowable carryover and had amounts calculated as available for reallocation totaling \$10,116,221. Some of these LEAs were reported to have had zero expenditures. A review of the worksheet indicated that there were 45 LEAs with zero expenditures. Based on this worksheet the total amount available for reallocation was \$33,667,641. However, none of the amounts were reallocated. According to the MMARS system, all of the LEAs had claimed 100% of the total Title I award for 2002, which indicates that the zero amounts in the worksheet, were wrong. Upon inquiry, it was explained that the zero indicated that the LEA failed to respond to a request by the Grants Management Unit for a special report on Title I spending in lieu of the required end of grant report (FR-1). The LEAs had been informed earlier that the fiscal year 2002 grants were to be extended and the final reports would not be due until August of 2003, rather than October of 2002 as usual. The Department made this change for a number of federal grants in fiscal year 2002 in order to accomplish some internal accounting goals. While the extension was within the scope of the Department's federal grants for most programs, it did not waive the 15% carryover limit of Title I.

Department personnel explained that the Department did not follow up on the missing responses to the request for special information or use other data at their disposal to determine the expenditures. This would have allowed for the proper calculation of the carryover amounts and the reallocation of excess amounts.

Four of the five selections tested did not have the calculation of the carry-forward from the 2001 grant clearly documented. The Department does not have a control system in place to track the grant amounts, plus or minus adjustments, carryovers and reallocations between the information developed by the program staff of the amounts available for award, the amount applied for by the LEA, the amount “awarded” per the Grants Management Unit's system and the actual grant payment amounts in the MMARS system. The questioned cost for the failure to properly measure the carry-over amounts and to reallocate the excess is indeterminable.

Per the Grants Management Unit's system, \$178,562,753 was awarded to the LEAs in fiscal year 2002 from the federal grant. The grant notification stated the amount to be distributed to the LEAs was \$178,272,219. There is no reconciliation to explain the over-award of \$290,534. This amount is questioned. There were also differences for some individual LEAs between the amount calculated as available for award to the LEA and the amount awarded per the Grants Management Unit's claimed status report. Department officials explained that the LEAs do not always apply for the amount that is made available and that causes the difference. For related observations, see finding number 41. (*Department of Education – Title I Grants to Local Educational Agencies 84.010*)

Department of Education

Findings on Compliance with Rules and Regulations

Finding Number 40: Measurement of the Title I 15% Carryover and the Amount Reallocated Needs Improvement (continued)

Recommendation

The Department must create a control environment for the management of federal grants that includes reconciliations, verifications and detailed supervisory review of complicated work. A checklist or other tool must be developed and provided to the individual with overall responsibility for the grant spelling out the many tasks that must be completed. The individual performing the task and management individual responsible for reviewing it should sign the checklist.

Department Corrective Action Plan

The Title I Director and the Grants Management Administrator have jointly undertaken a review of existing control procedures for determining if recipients are in excess of the 15% limitation on carryover for Title I grants. There will be a staff change in terms of responsibility for this activity. Title I has begun a review of the procedures for reallocation of excess funds and will make changes as needed.

A reconciliation has been performed of the amount listed as questioned and the difference noted is due to carry over of prior year funds awarded to our charter schools. Therefore, there was no over awarding of funds to LEAs during the year in Title I funds.

Grants Management will take the lead in coordinating the effort to better document the existing internal control procedures for reconciling and explaining differences between program unit grant 'allocation' data, and the 'actual' award data from the grants information system. Initial discussions have already begun with the various program and Information Technology staff.

Responsible person: Barbara Solomon and Ron Honesty
Implementation date: December 31, 2003

Department of Education

Findings on Compliance with Rules and Regulations

Finding Number 41: Lack of Procedures to Assure Required Minimum Distributions are Met

The Department of Education (Department) needs to increase the communication and interaction between units responsible for awarding and disbursing grants to Local Education Agencies (LEAs). During fiscal year 2003, this lack of communication between units, specifically the Grants Management Unit, which records the amount of the "awarded" grant to the LEA and the amount claimed (distributions) on each grant, the Budget and Finance Unit, which records the distributions to the LEAs in the MMARS system, and the individual program units that calculate the amount of the award the LEA is entitled to, resulted in the under-awarding of funds to LEAs for three different grants. Additionally, there is some confusion regarding the definition of what meets the minimum flow-through amount to LEAs required by the U.S. Department of Education. Does notifying LEAs of the amount available to them, subject to submission and approval of an application, constitute minimum flow-through? Is there a need to reallocate or otherwise make the funds not applied for by some LEAs available to others in order to meet the minimum flow-through requirements?

IDEA-97 has specific requirements for the allocation of funds (20 USC 1411[g] for the Early Childhood Grants and 20 USC 1419[g] for the Preschool Grant). Minimum distribution amounts are set by the U.S. Department of Education and are provided to the Department for calculation of each LEA's distribution to meet the overall distribution requirements. The mandated distribution for fiscal year 2003 for Special Education – Grants to States was \$164,887,660 according to the U.S. Department of Education. The minimum flow-through amount was appropriately made available to the LEAs in accordance with the federal requirements by the calculation of the amount available by the Department's Special Education Unit. The award amounts as calculated by the Special Education Unit did not match the award amounts shown in the Grants Management Unit's records of \$164,844,741 in total awards to the LEAs. The discrepancy of \$42,919 is said to be the result of the individual LEAs applying for less than the amount made available to them. The Grants Management Unit records as the "award" the amount actually applied for by the LEA plus or minus other adjustments rather than the amount "awarded" or made available to the LEA. A similar situation occurred for the grant awards for Special Education – Grants for Infants and Families with Disabilities, which amounted to a discrepancy of \$3,276 between units.

For the grant awards for Improving Teacher Quality - State Grants, the under distribution was \$453,444. Rules governing the percent of the funds available to the Department for the costs of administration and planning were announced in a notice published in the *Federal Register* on May 22, 2002 (67 FR 35967, 35977). This set the minimum amount that must be passed through to the LEAs.

The Department does not prepare any reconciliations or detailed audit trail between amounts recorded in each of the units. The amounts determined as entitlements by individual operating units "awards" and the amount reflected in the Grants Management Unit as the amount "awarded" are not always the same. When there are differences, there is no record to show the changes made. The amount recorded in MMARS as distributed and the amount reflected by the Grants Management Unit as "claimed" are not always the same. When there are differences there is no record of the details that make up the differences. There are reasons why the amounts reflected in each of the units may be different; however, there should be documentation to support the differences. There are no controls in place to detect errors in these important areas. There is also a lack of notification of the differences to the other units. This led to the failure to meet the minimum distribution requirements.

Department of Education Findings on Compliance with Rules and Regulations

Finding Number 41: Lack of Procedures to Assure Required Minimum Distributions are Met (continued)

They also failed to consider the appropriate alternatives to seek should the LEAs not claim their entire award amounts. In each of the three grants, instances occurred in which the LEA did not apply for (claim) the entire amount of their grant award. However, the Department failed to re-allocate these funds or provide adequate documentation and support regarding how these unclaimed funds were used. The Department does not have policies or procedures surrounding the manner in which unclaimed funds to LEAs are handled. Department officials explained that, in their opinion, making the funds available to the LEAs complies with the minimum flow-through requirement. (*Department of Education - Special Education, Grants to States 84.027; Special Education – Grants for Infants and Families with Disabilities 84.181; Improving Teacher Quality State Grants 84.367*)

Recommendation

The Department should develop internal control procedures to monitor and reconcile information that should be consistent between units to ensure that all units have the appropriate data. The three units should have increased interaction with one another to ensure that all information flowing from one unit to the next is, in fact, identical between the units. It also appears that the Department should seek guidance from the U.S. Department of Education regarding what constitutes compliance with the minimum flow-through requirement. We believe that the Department should create a set of policies and procedures for determining how unclaimed funds that should be distributed to the LEAs under the minimum-flow through allocation are actually used after they are determined to be unclaimed.

Department Corrective Action Plan

The procedures for Special Education have been revised to reflect the issues raised in this finding. We are also contacting USDOE to get an “official” definition of the “flow through requirement”.

In addition, Grants Management has taken the lead in coordinating the effort to better document the existing internal control procedures for reconciling and explaining the differences between program unit grant 'allocation' data, and the 'actual' award data from the grants information system. Initial discussions have already begun with the various program and Information Technology staff.

Responsible person: Marcia Mittnacht, Carole Thomson, and Ron Honesty
Implementation date: December 31, 2003

Department of Education

Findings on Compliance with Rules and Regulations

Finding Number 42: Inadequate Subrecipient Monitoring of New Program

For the federal fiscal year ended June 30, 2003, the Department of Education (Department) did not monitor the Improving Teacher Quality State Grants (Title IIA) federal awards to LEAs (subrecipients).

OMB Circular A-133 §.400(d)(3) requires pass-through entities to "Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved." OMB's A-133 Compliance Supplement states that such monitoring should take place during the award to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contract or grant agreements and that performance goals are achieved.

The Title IIA program is part of the No Child Left Behind Program initiative implemented this year by the federal government. To implement this new program, the Department has conducted regional No Child Left Behind meetings for districts every other month since October 2002. The Title IIA coordinator was part of these meetings and had the opportunity to meet with district personnel to informally discuss their Title IIA activities as well as to provide answers to any questions that they have had. Program officials explained that they were still receiving guidance from the U.S. Department of Education regarding the new initiatives during fiscal year 2003 and therefore did not have time to include the Title IIA activities in formal monitoring reviews other than reviewing LEA applications during fiscal year 2003. Program staff also believed that there was still time to monitor the fiscal year 2003 Title IIA activities because they believed the Program Quality Assurance Unit (PQA) would monitor 2003 LEA activities in 2004. PQA officials explain that they conduct their monitoring of fiscal year 2003 activities during 2003 so that LEAs can correct any deficiencies noted during the grant year. Therefore, PQA monitoring of 2003 activities is complete and Title IIA was not included.

Department and Title IIA program officials stated that Title IIA and Title I activities would be monitored together during the coordinated review process conducted by PQA for fiscal year 2004. However, initial discussions with PQA officials indicated that they were not aware that they were supposed to include Title IIA activities in its 2004 coordinated reviews and have not included them in their schedule. (*Department of Education - Improving Teacher Quality State Grants 84.367*)

Recommendation

The Department needs to continue to strengthen the process for implementing new programs and the internal control for all of the administrative requirements of the programs. An important control in this process is the monitoring of the LEA activities. Communication between the Title IIA Program officials and PQA officials needs to be clear and continuous.

Department Corrective Action Plan

The Department has issued a Grants Monitoring Checklist to document the different ways program administrators will monitor the state, federal, and other grants in their program units. This includes Title IIA.

A meeting was held in August with PQA, Title I, and Title IIA administrators on incorporating Title IIA-related elements into the Title I instrument. The Title I instrument now contains these elements.

A Department staff person has been given the responsibility for documenting the Title IIA monitoring activities.

Department of Education
Findings on Compliance with Rules and Regulations

**Finding Number 42: Inadequate Subrecipient Monitoring of New Program
(continued)**

Department Corrective Action Plan (continued)

A Policy and Procedures paper will be prepared that describes the relationship of the PQA 6-year monitoring schedule (with mid-cycle review of special education programs) with the annual grant monitoring activities conducted by program units.

Responsible person: Carole Thompson and Ron Honesty
Implementation date: December 31, 2003

Department of Education

Findings not Repeated from Prior Years

1. The Department of Education (Department) needed to refine its policies and procedures regarding the allocation of Special Education grant awards. The Department did refine its policies and procedures with regard to allocating the Special Education grant awards. (*Fiscal Year 2002 Single Audit Finding 29*)
 2. The Department did not establish a system of internal controls over the Goals 2000 Program. Activity for this Program stopped as of September 30, 2002. (*Fiscal Year 2002 Single Audit Finding 30*)
 3. The Department needed to continue to refine the documentation of its system of internal controls over the Class Size Reduction Program and consistently implement the controls that were in place. The Class Size Reduction Program has become part of the new Title IIA Program and ceases to exist as a standalone Program. (*Fiscal Year 2002 Single Audit Finding 31*)
 4. The Department did not provide auditable documentation for the salary charges to federal grants for the employees who work on multiple programs. The U.S. Department of Education issued a Program Determination Letter on June 3, 2003 resolving this finding. However, see Finding Number 35 for a related finding. (*Fiscal Year 2002 Single Audit Finding 32*)
 5. The Department prepared the administrative match section of the federal Vocational Education expenditure report based on the required amount to be matched not the actual expenditures from its books and records. The reports have been adequately prepared and the documentation detailing how the reports are prepared has improved. (*Fiscal Year 2002 Single Audit Finding 33*)
 6. The Department failed to obtain required certifications from the LEAs to support the December count report. During the fiscal year 2003 single audit, the required certifications were obtained. (*Fiscal Year 2002 Single Audit Finding 36*)
 7. For the fiscal year ended September 30, 2001, the Department failed to monitor the required number of Child and Adult Care Sponsors. The fiscal year 2003 single audit disclosed that the required number of sponsors were monitored. (*Fiscal Year 2002 Single Audit Finding 37*)
 8. The Department was unable to provide the reconciliation of the commodities inventory for audit. The reconciliation was provided for the fiscal year 2003 single audit. (*Fiscal Year 2002 Single Audit Finding 39*)
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Department of Revenue/Division of Child Support Enforcement Background

The Division of Child Support Enforcement (Division) is organizationally part of the Commonwealth's Department of Revenue. The Division's mission is to (1) identify and locate absent parents, (2) establish and enforce support obligations and (3) collect and distribute support payments for children receiving public assistance payments under the Transitional Assistance to Families with Dependent Children (TAFDC) Program as well as a portion of the court ordered non-TAFDC payments.

During fiscal year 2003, the Division's total expenditures were approximately \$62 million.

The federal funding to the Division is detailed in the accompanying Schedule of Expenditures of Federal Awards. The Division's major program was:

<u>CFDA #</u>	<u>Federal Program Description</u>
93.563	Child Support Enforcement

Department of Revenue/Child Support Enforcement Findings on Compliance with Rules and Regulations

Finding Number 43: Ineffective Case Tracking and Management System

The Department of Revenue/Division of Child Support Enforcement (Division) needs to improve its system for tracking and managing child support cases. Of the 25 case files selected for testing, 15 cases were not administered in accordance with federal regulations – 3 of the cases had more than one violation.

(A) A violation of federal regulation, 45 CFR 303.3, location of absent parents, was noted in four of the 25 cases tested. In accordance with 45 CFR 303.3(b)(5), the Division must repeat location attempts in cases where previous attempts to locate non-custodial parents or sources of income and/or assets have failed, but adequate identifying and other information exists to meet the requirements for submittal for location. Such attempts should be made quarterly or immediately upon receipt of new information which might aid in location. In one of the cases, quarterly location attempts were not made because minimal information was provided by the custodial parent (CP) about the non-custodial parent (NCP). In a second case, the CP was incarcerated and even though the Division had the CP's address after release, no location attempts were made. In the other two cases, location attempts took place beyond 3 months of receipt of the address verification information.

(B) A violation of 45 CFR 303.2 was noted in eight of the 25 cases tested. In accordance with 45 CFR 303.2, upon complete referral or the submission of a complete application, the case must be assessed and additional necessary information obtained within 20 days. In all eight cases, a review of the respective cases' Records of Support Action disclosed that necessary information was not obtained within 20 days after submission of the complete application. The number of days when the necessary information was obtained and the case created in COMETS for these eight cases ranged from 21 to 44.

(C) A violation of 45 CFR 303.4, establishment of support obligations was noted in four of the 25 cases tested. In accordance with 45 CFR 303.4, within 90 calendar days of locating the alleged father or non-custodial parent, regardless of whether paternity has been established, an order for support must be established or the proceedings necessary to complete service of process to establish a support order and, if necessary, paternity must commence. In all four cases, the location of the NCP was established but a court order to establish support was not issued within the stipulated 90 calendar days. In one case the location of the NCP was established in March 2003 and as of July 2003, the Division had not taken any court action to establish support obligation. In the second case, the location of the NCP was established in May 2002 but a court order to establish support was not issued until September 2002. In the third case, the NCP was located in August 2001 but the Division did not initiate a "service of process" until February 2002 and in the fourth case, the location of the NCP was established in November 2001, however the Division did not file a summons with the courts until February 2002.

(D) A violation of 45 CFR 303.6, enforcement of support obligation was noted in two of the 25 cases tested. Federal regulation, 45 CFR 303.6, states that if the location of the non-custodial parent is known, the Division is to take any other appropriate enforcement action within 30 days of identifying the case. In the first case, the Division received the application for enforcement of support obligation from the CP in April 2003 but did not initiate a wage assignment to the employer of the NCP until June 2003. In the second case, the Division did not send out a wage assignment until four months after receiving the case.

The Division's fiscal year 2003 Self-Assessment Review Report, required by federal regulation, 42 USC 654.15, found similar violations of federal regulations regarding (1) the repeating of location attempts in 17 of 22 cases tested, (2) the assessing and opening of cases in 21 of 21 cases tested and (3) the establishing of support obligations in 6 of 9 cases tested. Overall, the Report found the Division was compliant in five of the eight performance criteria areas and non-compliant in the other three—Establishment of paternity and

Department of Revenue/Child Support Enforcement Findings on Compliance with Rules and Regulations

Finding Number 43: Ineffective Case Tracking and Management System (continued)

support order, Review and adjustment of orders, and Interstate services. While the number of performance criteria with which the Division was compliant increased from the prior year from 4 to 5, the three non-compliant areas repeated. The Division's action (acceptance) rate decreased from 37% to 17% in the area of establishment of paternity and support order and from 66% to 53% in the area of review and adjustment of orders.

The Division's ineffective case tracking and management system suggests a weakness in COMETS and/or a failure in enforcing and monitoring compliance with policies and procedures and laws and regulations, and may render its case management database unreliable. (*Department of Health and Human Services – Child Support Enforcement 93.563; Fiscal Year 1989; 2002 Single Audit Finding 41*)

Recommendation

We recommend that the Division enforce its policies and procedures to comply with federal requirements governing case file review and administration including periodic training to its caseworkers. Supervisors should also review the work performed by caseworkers to ensure that all case files are complete and accurate, that the Division's policies and procedures are followed, and that federal compliance requirements are met.

The Division's Internal Audit Unit should continue to review case files with all active files being reviewed at least once every three years. These reviews should be documented and any errors identified logged to include a description of the error, the follow-up procedures performed, and how these errors are ultimately resolved or corrected.

Department Corrective Action Plan

The Division (CSE) continues to dedicate resources to on-going training for staff to improve case management and improved inventory tracking on its automated system -- COMETS. CSE is addressing the particular problems noted in the findings as follows:

Delays in creating cases and case assessment:

The primary factor in the delays noted in the findings was not a failure to track inventory - as a manual process is in place - but inadequate staffing levels within the regional Case Create units that handle the work. CSE's focus on data reliability and ensuring that data is entered correctly on the system and the data is itself accurate has resulted in an increase in the time necessary to create a case on COMETS. Simultaneously, the number of staff performing the functions decreased from FY00 to FY02. Staff must be certified to perform the tasks and therefore, as a member of the Case Create unit left, other regional office staff could not be readily redeployed to address mounting backlogs, etc. CSE received additional funding to backfill critical positions including those in Case Create and positions were posted and filled during FY03. Nearly 20% of the new hires were assigned to Case Create units. Refresher training for existing Case Create staff and comprehensive training for new hires was conducted. The impact of the new staff on existing inventory was not realized until the last half of FY03 as new staff had to undergo training and close monitoring by supervisory staff for several months. Once the new staff fairly up to speed, we saw sizable reductions in Case Create backlogs and a decrease in the time between receipt of an application or referral and creation of the case. Weekly regional production within Case Create improved from 30% - 110% across the various regions.

Please see the section below on case assessment and location for action taken to improve timeliness of required case assessment within the 20-day timeframe. CSE continues to monitor new case inventory closely and regularly reassigns cases from an office that might be experiencing a backlog to another office that has a more manageable inventory.

Department of Revenue/Child Support Enforcement Findings on Compliance with Rules and Regulations

Finding Number 43: Ineffective Case Tracking and Management System (continued)

Department Corrective Action Plan (continued)

Failure to assess cases timely, locate a non-custodial parent, or follow up on new location information:

A training meeting was held for all CSE staff who perform tasks related to the location of non-custodial parents. The agenda included: a review of the federally mandated case processing timeframes, tasks that must be performed to meet the federally mandated 20 day assessment period, introduction of a “Location Checklist” (a tool staff use to confirm that various location sources have been checked on every new case or when location is necessary), and several new form letters staff can use to obtain additional information from the custodial parent. Additionally, Policy and Procedures staff visit the regional offices on a regular basis and continue to provide “refresher training” on the federal case processing timeframes and the steps staff must take to meet location standards. The information is also emphasized by regional office managers during monthly staff meetings.

As with CSE’s Case Create staff, the units responsible for location also had staff vacancies CSE was not able to fill until FY03. Approximately, 20% of the new staff were assigned to fill the vacancies. CSE also continues to make concerted efforts to interview custodial parents who receive public assistance, but who did not, at the time of their application for public assistance, provide information about the non-custodial parent that was sufficient for CSE to establish an order (and paternity if necessary). CSE is also working with the Department of Transitional Assistance (DTA) to implement a process by which DTA staff will obtain from a custodial parent the additional information that is required on cases in which paternity must be established. Additionally, CSE has provided new on-line location tools (for example, Lexis) to staff that have improved its success rate in locating non-custodial parents and their assets. As a result of these corrective actions, the number of cases ready each week to move forward with court action to establish an order has increased by 15% to 100% across the regional offices.

Finally, the finding indicates, “In one of the cases, quarterly location attempts were not made because minimal information was provided by the custodial parent (CP) about the non-custodial parent (NCP).” Federal regulations require repeated location attempts “in cases in which previous attempts have failed but adequate identifying and other information exists to meet requirements for submittal for location, either quarterly or immediately upon receipt of new information which may aid in location, whichever occurs sooner. Quarterly attempts may be limited to automated sources but must include accessing State employment security files.” Therefore, if CSE did not have the information on the non-custodial parent that is required for submission to automated location sources or for matching against State employment security files – generally the non-custodial parent’s Social Security number or information that would lead to the Social Security number such as his or her date of birth – quarterly attempts are not required. (However, CSE must try to obtain the information necessary to submit the non-custodial parent to automated location sources.)

Delays in order establishment after non-custodial parent is located:

While not the sole cause of the delays noted in the findings, the major factor was a dearth of attorney staff. All legal pleadings must be reviewed and signed by an attorney and therefore, a lack of attorney staff results in delays in moving cases forward for order establishment. CSE experienced a significant reduction in attorney staff between FY00 and FY02. In FY03, CSE hired between 2 and 4 new attorneys for each regional office. The additional attorney staff has significantly reduced the time it takes to get a case into court for order establishment once the non-custodial parent is located. (While, some of the attorneys hired in FY03 resigned before the close of the fiscal year, CSE has been proactive about reposting the positions to prevent inventory from mounting again.) By the close of FY03, the percentage of cases from the pre-obligated inventory for which an obligation had been established, increased by 3% to 21% as compared to FY02.

Department of Revenue/Child Support Enforcement Findings on Compliance with Rules and Regulations

Finding Number 43: Ineffective Case Tracking and Management System (continued)

Department Corrective Action Plan (continued)

Delay in Enforcement:

CSE's Case Create units are responsible for entering new support orders on CSE's computer system. The additional staff hired in FY03 have helped reduce any delays in enforcement that result from delays in entering the order on the system. (Once the order is entered on the system, the system automatically issues a notice of income assignment to the obligor's employer and CSE's other automated enforcement actions are initiated if arrears exist or accrue, (e.g. intercept of federal and state income tax refunds and levy and seizure of bank accounts). In addition, CSE is working closely with the courts and the private bar to address the problems of unclear or ambiguous court orders. Court orders with unclear terms cannot be entered on the system in a timely fashion and enforcement is delayed while staff contact the parties and the court to determine how to clarify the provisions of the order. CSE is working to ensure that parties understand the importance of including a specified amount, frequency and end date in every court order for child support so that the order can be entered on CSE's system timely and enforced effectively. In collaboration with Family and Probate Court, CSE created and, in August 2003, implemented a standard form for child support orders to be used in all child support cases in the Commonwealth. These proactive steps should prevent a delay in getting orders onto the system due to unclear terms and complicated private party stipulations.

Responsible person: Rachel Madden

Implementation date: Ongoing

Department of Revenue/Child Support Enforcement Findings on Compliance with Rules and Regulations

Finding Number 44: COMETS Does not Comply with Federal Requirements

The Department of Revenue/Division of Child Support Enforcement (Division) was not in compliance with system requirements imposed by the federal government relating to the Division's Commonwealth of Massachusetts Enforcement Tracking System (COMETS) resulting in a \$7.6M penalty imposed by the federal government.

COMETS was brought on-line in December 1997, with only 30% functionality, in order to avoid potential federal financial penalties that could have resulted in the loss of all of child support and Transitional Assistance to Needy Families (TANF) federal funding. The Personal Responsibility and Work Opportunity Reconciliation Act required states to meet many new additional requirements. The deadline for implementing these new system requirements was October 1, 2000. Although many of the system requirements were implemented by the deadline, the most complex financial allocation requirements were not. Division personnel explain that COMETS financial module needs to be redesigned before it will comply with federal guidelines. The Division has hired 32 consultants and 20 full-time state employees to work on the redesign project. The redesign was originally scheduled to be completed in fiscal year 2003 but completion has been delayed until October 2003 (fiscal year 2004).

Despite improvements in the process, the resolution of numerous problems and several successful software releases, there are still some critical structural problems with the COMETS database. Until these problems are addressed and the system requirements are implemented, the Division will continue to receive penalties from the federal government. The first penalty imposed for federal fiscal year (FFY) 2002 was 4% of the federal share of COMETS or \$6.3M. As stated above, the FFY 2003 penalty was \$7.6M. Future penalties, if the Division continues to not be certified, will be imposed in FFY 2004 at 25% and FFY 2005 and beyond at 30%. Congress has instituted a new system for awarding federal incentives, identifying five areas essential to an effective child support program, they are 1) paternity establishment, 2) establishment of child support orders, 3) collections on current support, 4) collections on past due support, and 5) cost-effectiveness. For every performance measure that the Division receives maximum incentives, the penalty decreases by 20%. The Division can mitigate penalties by achieving maximum incentives and should continue striving toward that goal. (*Department of Health and Human Services – Child Support Enforcement 93.563; Fiscal Year 2002 Single Audit Finding 43*)

Recommendation

The Division should continue working closely with its consultants and in-house staff to finalize the redesign of the system in order to comply with federal requirements. Timely implementation of these system requirements will result in fewer penalties imposed on the Division.

Department Corrective Action Plan

The recommendation of the audit team reflects the action CSE is taking. CSE, in conjunction with DOR/ISO staff and a vendor (Unisys/Protech), have been working to implement a new financial module for COMETS. The new module will allow CSE to meet the PRWORA distribution requirements as well as provide CSE with improved financial processing. This new module is scheduled for implementation on September 30, 2003. CSE is required to notify OCSE in writing by September 30, 2003, that PROWRA requirements have been satisfied in order to put FFY04 penalties in abeyance pending review by OCSE. Once OCSE has completed its review of all PRWORA requirements and certified the COMETS system, there will be no additional penalties and CSE will be refunded 90% of FFY03 penalties. OCSE's review is expected to be completed after January 2004; the specific review date has not been set.

Responsible person: Michele Monahan
Implementation date: December 31, 2003

Department of Revenue/Child Support Enforcement Findings not Repeated from Prior Years

1. The Department of Revenue/Division of Child Support Enforcement's (Division) case file system did not always detect all inactive cases that remain open in the system. No such instances were noted during 2003 testing. In addition training has been held focused on case closing and the number of cases has increased. (*Fiscal Year 2002 Single Audit Finding 40*)
 2. The Division issued its Self-Assessment Review six months late. The 2003 Review was issued in a timely manner. (*Fiscal Year 2002 Single Audit Finding 42*)
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Department of Public Health Background

The Department of Public Health (Department) protects public health through a wide variety of activities. The Department monitors the quality of the Commonwealth's health care facilities and regulates the environment, health, and sanitation of food, drugs, and other consumer products. Through its hospitals, it provides direct care services, inpatient hospital care and education, with special emphasis on populations not adequately treated by the voluntary and private sectors.

Through its providers and various outreach programs, the Department provides a broad range of preventative and health promotion services. Environmental health education informs the public about hazardous substances in the workplace. The maternal and child health program offers specialized health care for high risk infants to help curb infant mortality and prevent later health complications. Substance abuse services include education, counseling, and youth intervention programs. The Childhood Lead Poisoning Prevention Program provides in excess of 300,000 blood analyses annually to detect lead content. The AIDS Bureau provides AIDS testing, preventative education, and coordinates with the substance abuse services to raise public awareness of the relationship between AIDS and substance abuse. Other outreach operations provide blood pressure and cholesterol screening and nutritional information and training. They also immunize children and adults and monitor communicable diseases. Through the Special Supplemental Food Program for Women, Infants and Children, food supplements are made available to mothers and their children.

For fiscal year 2003, the Department administered approximately \$729 million. Of this amount, federal funds amounted to \$237 million.

The federal funding to this department is detailed in the accompanying Schedule of Expenditures of Federal Awards. The Department's major programs were:

<u>CFDA #</u>	<u>Federal Program Description</u>
10.557	Special Supplemental Food Program for Women, Infants and Children
93.959	Block Grants for Prevention and Treatment of Substance Abuse
93.268	Childhood Immunization Grants

Department of Public Health Findings on Compliance with Rules and Regulations

Finding Number 45: Incorrect Amount Reported on the PSC 272

The Department of Public Health (Department) reported an incorrect amount on the Federal Cash Transaction Report (PSC 272) for the quarter ended December 31, 2002.

The Department is required to file the PSC 272 Report on quarterly basis for *State Survey and Certification of Health Care Providers and Suppliers Program* (appropriation 4510-0400) with all federal cash received for the quarter and cumulative to date. A review of the PSC 272 Report for the quarter ended 12/31/02 disclosed an overstatement of \$1,155,419.03 of federal net disbursements by the Department. The report showed the cumulative amount of net disbursements of \$3,486,319.96. The documentation provided as support from the Massachusetts Management Accounting and Reporting System (MMARS) showed that the amount should have been \$2,330,900.93

This overstatement of federal cash funds reported was due to a mathematical error within the workpapers used to input the data into the PSC 272. Quarterly expenditures are posted to workpapers from the automated Federal Accounting Coding System (FACS). An adjustment was erroneously made to this appropriation and the final result was not tied back to the FACS system and the MMARS 562A Report (Expenditures by Appropriation). (*Department of Health and Human Services – State Survey and Certification of Health Care Providers and Suppliers 93.777*)

Recommendation

The Department should implement a procedure requiring the review and sign-off of the PSC 272 report before it is filed with the federal awarding agency to ensure that the amounts reported are accurate. Additionally, the December 31, 2002 PSC 272 Report should be amended and resubmitted with the proper amounts.

Department Corrective Action Plan

The Department's Federal Grant unit in the Accounting Office has implemented a monthly reconciliation process for federal grant 4510-0400. This grant does not require an FSR report at the end of the grant cycle, which is one method for reconciling to MMARS. This added reconciliation process will be an additional check to ensure that quarterly expenditures for this grant tie to the MMARS 562A reports. In addition, the PSC 272 report will not be submitted to the Federal Division of Payment Management until reviewed and approved by the Acting Director of Accounting.

Responsible person: George Trubiano
Implementation date: 9/1/03

Department of Public Health Findings on Compliance with Rules and Regulations

Finding Number 46: The Preparation and Filing of the SF 269A Report Needs to be Streamlined

The Department of Public Health (Department) and the Executive Office of Health and Human Services (EOHHS) did not file the Financial Status Report (SF 269A) with the U.S. Department of Health and Human Services in a timely fashion.

Under the requirements of Title XIX, Part B, Subparts II and III of the Public Health Service Act (42 USC 300x; 45 CFR section 96.30(b)), an SF 269A Report is required to be filed for the SAPT Block Grant, beginning with federal fiscal years ending on or after September 30, 2002. The report must be submitted 90 days after the grant award is expired. The expiration date for the FFY2002 grant award was September 30, 2002. As such, the report was required to be filed on December 31, 2002.

The SAPT Block Grant is awarded to EOHHS and, as such, it is their responsibility to file the SF 269A Report. However, EOHHS provides only limited administrative duties in carrying out the SAPT Block Grant; the Department is responsible for providing all of the operational and managerial responsibilities in carrying out the Block Grant as well as preparing the SF269A Report. Once the Department prepares the Report, it submits it to EOHHS for final submission to the federal government. It appears that EOHHS performs a perfunctory review before submission to the federal government. Department personnel explained that they submitted the SF269A Report to EOHHS on time but EOHHS was unable to locate the Report due to turnover of financial reporting personnel. A discussion with the Department's Acting Director of Accounting indicated that EOHHS submitted an interim SF 269A report on January 9, 2003. (*Department of Health and Human Services – Substance Abuse Prevention and Treatment Block Grant 93.959*)

Recommendation

The Department's Bureau of Substance Abuse Services and the Central Accounting Office should, collectively, communicate with the Massachusetts Executive Office of Health and Human Services to develop and implement a monitoring system to track the due dates and ensure SF 269A is submitted timely and documents are kept in an adequate filing system.

Since the Department has 99% of the responsibility to carry out the Block Grant, consideration should be given to having the Department submit the Report directly to the federal government.

Department Corrective Action Plan

The Accounting Division at the Department will notify and prepare for the Massachusetts Executive Office of Health and Human Services the FSR 269 report for SAPT Block Grant. The final report for a grant year is due on December 31st. The Department's accounting office will review results with the Director of Accounting at EOHHS prior to the December 31st due date. This will allow for questions to be answered and adjustments to be made to ensure the submission deadline is met.

Responsible person: George Trubiano
Implementation date: 9/1/03

Department of Public Health Findings on Compliance with Rules and Regulations

Finding Number 47: Untimely Issuance of Management Decisions for Subrecipient Audit Findings

The Department of Public Health (Department) did not issue management decisions on the audit findings disclosed at its Substance Abuse Prevention and Treatment Block Grant (SAPT) subrecipients in a timely manner.

The Department monitors subrecipients through various methods including the receipt of their independent auditors' reports. Based on this review, the Department will note any finding related to SAPT and require that the subrecipient submit a corrective action plan for Department approval.

Two of 10 subrecipients tested were not provided a timely management decision because the corrective action plan was not approved until 7 months after the issuance of the audit report. The Department has 358 subrecipients for SAPT.

OMB Circular A-133 §.400 (d) (5) requires pass-through entities to "Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action."

Department personnel indicated that the lack of staffing did not allow for a timely follow-up on all subrecipients' corrective action plans. (*Department of Health and Human Services – Substance Abuse Prevention and Treatment Block Grant 93.959*)

Recommendation

As indicated above, the Department's subrecipients expend most of the SAPT funds. As such, the Department needs to assure that staff is available to review and issue management decisions within the required timeframe to ensure that the subrecipients are complying with all federal and state requirements.

Department Corrective Action Plan

The resolution of A-133 audits at the Department is intimately tied to the annual pre-qualification/ re-qualification process. This process is mandated by EOHHS and involves the review of financial statements, affirmative action reports, ADA materials, information about a provider's board of directors, and so forth. The Department is required to prequal/requal all providers for which it is the principal purchasing agency (PPA). We are PPA for about 330 providers. Because of this high volume, the POS Office enlists the assistance of between five and 6 staff, most of whose normal duties do not involve prequal/audit resolution.

While the prequal/requal process is supposed to commence in December, we have to await instructions from EOHHS that detail modifications to the process before we can begin. For the past few years, these instructions have been received quite late. Because prequal/requal is combined with audit resolution, the review of all related documents is conducted simultaneously. A provider's status is not reviewed and determined until all materials are received. Thus, if we receive a Uniform Financial Report (UFR) but do not have other prequal-related material, the review is deferred. This is necessary in order to maximize efficiency. Finally, because review of the UFR and related audit material is subsumed under the prequal/requal process, our goal is to have all reviews completed by June 30, so that each provider will have a prequal/requal status by July 1, the beginning of the new state fiscal year.

**Department of Public Health
Findings on Compliance with Rules and Regulations**

**Finding Number 47: Untimely Issuance of Management Decisions for Subrecipient
Audit Findings (continued)**

Department Corrective Action Plan (continued)

It is worth noting that EOHHS, in conjunction with its member departments, is currently engaged in a comprehensive review of the Commonwealth's 'risk management' process, and that the prequal/requal process will be likely streamlined for the coming fiscal year. Because the current system is somewhat 'Byzantine', with shared responsibilities crossing departmental boundaries, many departments are advocating that the function be centralized at the secretariat level. While it is too early to tell yet what the final outcome of this review will be, there is a high degree of confidence that some sort of streamlining and consolidation will take place.

Responsible person: Paul Kerrigan
Implementation date: 10/01/2003

Department of Public Health Findings on Compliance with Rules and Regulations

Finding Number 48: Overspending of Penal and Correctional Facilities Earmarking Maximum

The Department of Public Health's (Department) Bureau of Substance Abuse Services (BSAS) did not fully implement the corrective action plan from the prior year in order to ensure that the maximum level of spending under the Substance Abuse Prevention and Treatment Block Grant (SAPT) for the Penal and Correctional Facilities was not exceeded. In fiscal year 2003, \$259,852 of SAPT funds were expended for this purpose, however the maximum amount that should have been spent was \$241,000. As such, the maximum was exceeded by \$18,852.

Under the requirements of 42 USC 300x-31; 45 CFR section 96.135(b)(2), the Department "may not expend grant funds for providing treatment services in penal or correctional institutions in an amount more than that expended for such programs by the State for fiscal year 1991". (The amount expended in 1991 was \$241,000 and, as such, becomes the maximum amount.)

The Department's corrective action plan after completion of the fiscal year 2001 single audit indicated that a new internal control policy had been implemented. Department personnel explained that the new policy required continual monitoring of these expenditures and transferring to a state funded program any amount that exceeded the maximum. However, they also explained that it was too late into the current fiscal year to transfer the appropriate expenditures from the federal grant to a state funded program. Consequently, the Department overspent the earmarking requirement by the \$18,852. (*Department of Health and Human Services – Substance Abuse Prevention and Treatment Block Grant 93.959; Fiscal Year 2002 Single Audit Finding 46*)

Recommendation

The Department's SAPT Program Management (BSAS) should more closely monitor and track the level of spending at penal and correctional facilities to ensure that the spending does not exceed the mandated cap.

Department Corrective Action Plan

During state fiscal year '03, the Bureau of Substance Abuse Services attempted to fully implement last year's audit finding regarding the earmarking requirements for Penal Corrections. Unfortunately, due to constraints in the shifting of funds allocated to certain vendors of criminal justice and substance abuse services by way of "Interagency service agreements"(ISA), the Bureau was unable to fully implement controls.

In establishing state fiscal year's 2004 contracts for these services, the Bureau was able to achieve full implementations of the new controls by moving vendor contracts to the state account.

Responsible person: Matt Cornish
Implementation date: 9/15/03

Department of Public Health Findings on Compliance with Rules and Regulations

Finding Number 49: Medical Licenses Number not Obtained

The Department of Public Health's (Department) State Laboratory did not obtain all of the required medical license number from one of its service providers.

Under the Center of Disease Control (CDC) grant application guidance for the Immunization Program, the Department's State Laboratory is required to obtain the name, medical license number, and medical provider number (if applicable) of each practitioner at each provider site. One out of 10 provider sites selected for testing did not have the complete medical license numbers associated with the practitioners at the provider site. The provider site in question is a large hospital with numerous practitioners.

The Department did contact the provider to request required information however provider failed to submit the license numbers for all practitioners. In order to ensure that children at this provider site had continued access to vaccine, the Department continued to supply vaccine to this site since the medical director signature was on file.

As the result, State Laboratory did not comply with the CDC requirement as to collect the medical license numbers for each practitioner at the provider site. (*Department of Health and Human Services – Childhood Immunization Grants 93.268*)

Recommendation

The State Laboratory should implement a procedure that requires all the providers to submit complete listings of all practitioners and their medical license number and an annual update of these listings.

Department Corrective Action Plan

Providers are required to update their enrollment information on an annual basis. A list of all practitioners that prescribe vaccinations and their license numbers must be submitted as part of their enrollment information. For 2002, enrollment packets were sent to over 1,700 public and private pediatric provider sites. There is a deadline for submission of completed enrollment forms after which time the provider office could be denied vaccine.

Providers that submit incomplete enrollment forms are contacted either by phone or fax by MIP staff. The provider site of mention was contacted and the license numbers were requested. Despite repeated requests, the provider site failed to submit the license numbers for all practitioners. In order to ensure that children at this provider site had continued access to vaccine, the Department continued to supply vaccine to this site since the required signature and license number of the medical director of this large pediatric hospital was on file. A complete practitioner list, including license numbers, is on file for this provider site for 2003.

The Department will continue to require provider sites to include a list of their practitioners and license numbers with their annual enrollment. Provider sites failing to include this information will be contacted. If deemed necessary, vaccine can be withheld until the Department receives all the necessary enrollment information.

Responsible person: Marie E. O'Donnell
Implementation date: 08/20/03

Department of Public Health Findings not Repeated from Prior Years

1. The Department of Public Health (Department) did not fully comply with the Independent Peer Review compliance requirement for SAPT. The Department developed a workplan to comply with this requirement and no instances of this type of noncompliance were noted during the fiscal year 2003 testing. (*Fiscal Year 2002 Single Audit Finding 44*)
 2. The Department did not hold public hearings regarding the state plan for SAPT during the development of or after submission of the plan. During fiscal year 2003, a public hearing was held. (*Fiscal Year 2002 Single Audit Finding 45*)
 3. The Department's State Laboratory had inconsistent documentation for the shipment of vaccine orders to the Regional Distribution Centers. The Laboratory instituted a policy that required the Vaccine Order Packing Form be received from the regional offices within hour of expected time of delivery and no instances of inconsistent documentation were noted during fiscal year 2003 testing. (*Fiscal Year 2002 Single Audit Finding 47*)
 4. The Department did not provide documented support that it had complied with the level of effort requirements of SAPT for tuberculosis services. MMARS expenditure reports have been developed and state funded tuberculosis services are tracked and monitored and the level of effort requirement met. (*Fiscal Year 2002 Single Audit Finding 48*)
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Massachusetts Highway Department Background

The Massachusetts Highway Department (Department), within the Executive Office of Transportation and Construction, plans, constructs, and maintains the state highway system, which consists of approximately 9,505 lane miles of highway and 2,900 bridges. To accomplish this, the Department operates approximately 143 maintenance facilities located throughout the state, including administrative offices, garages, and repair and storage buildings. Most of the facilities are small and serve maintenance needs.

During fiscal year 2003, the Department administered appropriated funds of approximately \$112 million. In addition, the federal government on a reimbursement basis provided about \$461 million.

The federal funding to the Department is detailed in the accompanying Schedule of Expenditures of Federal Awards. The Department's major program was:

<u>CFDA #</u>	<u>Federal Program Description</u>
20.205	Highway Planning and Construction

Massachusetts Highway Department Findings on Compliance with Rules and Regulations

Finding Number 50: Subrecipient Identification and Award Documents Need Improvement

The Massachusetts Highway Department (Department) needs to improve its system for identifying, and communicating to subrecipients thereby ensuring compliance with the provisions of the Single Audit Act Amendments of 1996.

Section 7502 (f)(2) of the Single Audit Act Amendments of 1996 (Act), states that each pass-through entity shall provide subrecipients with the program name and identifying number as specified in the *Catalog of Federal Domestic Assistance* (CFDA) as well as the federal requirements, which govern the use of such awards.

A subrecipient is an entity that expends federal awards received from a pass-through entity, such as the Department, to carry out a federal program. OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, the implementing regulations of the Act, indicates certain characteristics that should be considered in identifying subrecipients. For instance, subrecipients assume the responsibility for making programmatic decisions as well as complying with applicable federal requirements. Their performance is measured in terms of meeting the federal program's objectives rather than just providing goods or services to the Department. Vendors are those entities, which provide goods and services to many different purchasers within their normal business operations. They operate in a competitive environment; and/or provide goods or services that are ancillary to the operation of the federal program. Vendors are not subject to Single Audit requirements. Not informing the subrecipients that they are receiving federal awards can affect the type of audit they should obtain.

During a review of some new agreements the Department has with other state and municipal governments, it was noted that in three (3) instances the Department treated these entities as vendors. In addition, one (1) other older agreement extended during the year with additional funds being awarded was also treated as a vendor even though the Department realized it should be considered a subrecipient. The funds awarded under these agreements had the characteristics of a pass-through-subrecipient relationship. As a result, the agreements did not contain the program name or identifying number from the CFDA.

While the Department has made an effort to identify subrecipients, there continues to be some uncertainty as to the type of activity and entity that may qualify as an award to a subrecipient. Payments to other governments and non-profit organizations are often coded as design or construction indicating that the Department is undertaking those activities rather than delegating the responsibility to those entities. In addition, award documents do not inform recipients of all applicable requirements, when the Department plans to seek reimbursement under federal programs. The Department estimated that approximately \$1.8 million or 4 percent of the \$416 million in payments made under the State Roads and Bridges Program were made to other governments and non-profit organizations in fiscal year 2003 that could be construed as subrecipients. (*Department of Transportation – Highway Planning and Construction 20.205; Fiscal Year 1999; 2002 Single Audit Finding 49*)

Recommendation

The Massachusetts Highway Department should develop standard contract language, which includes the program name and identifying number as well as the applicable federal requirements for the various types of awards it passes through to inform subrecipients that they are receiving federal funds. All new and amended contracts with other governments and non-profit organizations should be reviewed by one bureau to ensure all agreements or extensions the Department enters into are properly classified as either vendors or

Massachusetts Highway Department Findings on Compliance with Rules and Regulations

Finding Number 50: Subrecipient Identification and Award Documents Need Improvement (continued)

Recommendation (continued)

subrecipients, as defined by OMB Circular A-133. Finally, the Department should work with the Office of the Comptroller to develop an object code, which will properly identify those subrecipients performing construction activities with pass-through funds, thereby ensuring that these types of agreements are properly identified in the Commonwealth's schedule of expenditures of federal awards.

Department Corrective Action Plan

MassHighway took several positive steps over the last fiscal year to improve the identification of subrecipients and ensure all agreements contain the appropriate language, including program name and identifying number. The steps taken included a letter from the Commissioner to all sections reminding them of the requirements surrounding subrecipients, and a training was held in the spring that included information on the responsibilities of the department in regard to subrecipients. The Planning Section has developed standardized language that is used in all subrecipient agreements. The Audit Section has agreed to be responsible for the review of all audits on subrecipients. Although the majority of subrecipient agreements flow through the Planning Section, we can explore with the Chief Counsel the possibility of including standardized language in all contracts.

Responsible person: Sue Bristol
Implementation date: 11/3/03

Massachusetts Highway Department Findings on Compliance with Rules and Regulations

Finding Number 51: Proceeds from the Sale of Federally-Funded Property not Deposited or Transferred on a Timely Basis

The Massachusetts Highway Department (Department) did not deposit the proceeds from the sale of property acquired with federal awards on a timely basis. In addition, there was a delay in transferring \$104,580 to the Massachusetts Highway Trust Fund.

The Common Rule as stated at Title 49 of the *Code of Federal Regulations* for the U.S. Department of Transportation Section 18.31 “Real Property” permits the Department to sell property previously purchased with federal funds. Under 23 USC 156, the federal share of the proceeds from property purchased with awards from the Highway Trust Fund can be used to fund other eligible highway projects. The Department makes those funds available to other eligible highway projects by transferring the federal share of the proceeds to Fund 290, the Massachusetts Highway Trust Fund. When the Right-of-Way Bureau receives checks from the sale of real estate, it forwards them to Fiscal Management for deposit. There is a Department policy that transfers to the Highway Trust Fund must occur within 30 days of being received by Fiscal Management. It is also the Commonwealth’s policy to deposit all checks within one day of receipt.

During testing for fiscal year 2003, it was noted that four of the five checks selected from real estate sales were not deposited within one business day. Those checks were held from 2 to 4 days before being deposited. Right-of-Way held checks 1 day while Fiscal Management held them 2 to 3 days. This is an improvement since the prior year when checks were held from 7 to 17 days in total by both units. Department personnel indicated that it is still difficult to determine whether the sale is from a federally-funded project in sufficient time to deposit the check on a timely basis.

In addition, credits to the Highway Trust Fund totaling \$104,580 were not made within 30 calendar days for three of the five items tested. The transfers of \$45,360, \$48,352 and \$10,686, took 32, 55 and 67 days respectively. Department staff indicated that the wrong federal-aid numbers were initially identified for these sales and they needed to be corrected before the transfers could be made. (*Department of Transportation – Highway Planning and Construction 20.205; Fiscal Year 2001; 2002 Single Audit Finding 51*)

Recommendation

The Massachusetts Highway Department should continue its efforts to further streamline the time between the receipt of a check for the sale of real property and its deposit into the Commonwealth’s accounts. Information concerning the federal-aid number should be researched before the closing. All checks should be deposited within one day of receipt regardless of whether complete information is available concerning the federal-aid project number. In addition, every effort must be made to credit the Highway Trust Fund within 30 calendar days.

Department Corrective Action Plan

As noted in the finding, the Right of Way Bureau has done an excellent job in delivering the checks to the Fiscal section within one day of closings for the Sale of land. The Fiscal section will continue to streamline procedures of depositing checks in a timely manner. Checks will be deposited upon receipt where possible, and issues with the supporting documentation will be addressed separately. Clearing accounts will be utilized when there are issues with determining the proper Federal project to transfer to. This should expedite the processing of Cash Transfers within the thirty-day period.

Responsible person: Glenn Behmer, Director of Revenue
Russell McGilvray, Deputy Director, Right of Way
Implementation date: 10/01/2003

Massachusetts Highway Department Findings not Repeated from Prior Years

1. It could not be determined whether the Massachusetts Highway Department (Department) charged the fair market value for the lease of real property acquired with federal assistance. The late appraisals noted during the fiscal year 2001 and 2002 audits have been completed. In addition, the Right of Way bureau has requested updated appraisals for all expired leases and leases due to expire before October 31, 2003. (*Fiscal Year 2002 Single Audit Finding 50*)
 2. Consultant costs of \$933,614 were not credited on a timely basis. Audit Operations and Fiscal Management have strengthened procedures to ensure the Federal-Aid Section promptly receives all audit reports. As a result, all credits to FHWA were provided within thirty days. (*Fiscal Year 2002 Single Audit Finding 52*)
 3. Certified payrolls were not received on a timely basis. Subsequent to the 2002 Single Audit, the Department met with all Highway Directors and Deputy Chief Engineers to stress the importance of compliance with the Davis-Bacon Act and similar provisions in Massachusetts General Law. A sample of the federal form for contractor's weekly payroll and a compliance statement were distributed. In addition, the Department's Standard Operation Procedures, which include the federal form and compliance statement, were also provided to the Central Artery office at the Massachusetts Turnpike Pike Authority. As a result of these efforts, no instances of noncompliance were noted during the current audit. (*Fiscal Year 2002 Single Audit Finding 53*)
 4. Documentation of debarment and suspension needed improvement. The Department was able to provide certifications for all transactions tested. (*Fiscal Year 2002 Single Audit Finding 54*)
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Department of Social Services Background

The Department of Social Services (Department) established by Section 1 of Chapter 18B of the Massachusetts General Laws provides safe homes for children from abuse and neglect and when possible works to strengthen families. The Department administers a comprehensive social services program administered through 29 area-based offices, which includes counseling, protective services, parent aid or day care to reduce risks to children, legal and adoptive services. To ensure the children's wellbeing, when necessary, the Department intervenes through court orders or voluntary agreements to place the child with foster parents or in-group homes. During FY-2003, approximately 10,000 children are living in foster or group homes. When a child is removed from his or her home, the Department develops a plan to provide as soon as possible a long-term stable resolution. The Department also provides shelter and other services for battered women and their children.

For fiscal year 2003, the Department administered approximately \$670 million. Federal funds amounted to approximately \$250 million.

The federal funding to this Department is detailed in the accompanying Schedule of Expenditures of Federal Awards.

The Department's major federal programs were:

<u>CFDA #</u>	<u>Federal Program Description</u>
93.667	Social Services Block Grant
93.658	Foster Care – Title IV-E

Department of Social Services Findings on Compliance with Rules and Regulations

Finding Number 52: Timeliness of CORI Checks Needs Improvement

The Department of Social Services (Department) did not perform timely re-evaluations of Criminal Offense Record Information (CORI) checks for persons providing foster care services under the Title IV-E Foster Care Program in five of the twenty-five Title IV-E cases tested as of June 30, 2003. In four of the five cases, the re-evaluation still has not been performed. These are currently overdue by 17, 13, 8 and 5 months after the child was placed in the home. In the fifth case, the CORI check and the annual re-evaluation were completed 7 months after they were due to be completed.

Through the FamilyNet system, the Department area office family resource worker tracks when CORI re-evaluations are due and are supposed to electronically submit requests to the central office CORI unit to complete the background check. Our review disclosed that the family resource worker does not always notify the unit when a CORI check is due. Discussions with Department officials indicated that some information regarding CORI checks is communicated to the Central Office by memorandums and telephone rather than electronic request, which increases the risk of untimely CORI requests or requests not being communicated at all.

The Department is required to perform criminal background checks on all new hires and an annual re-evaluation, of individuals and families seeking or providing services as foster family resources. Federal regulation, 45 CFR 1356.30(a) and (b), requires that the foster family home provider must have satisfactorily met a criminal records check with respect to prospective foster and adoptive parents. Under Massachusetts regulation, CMR 110-7.113, DSS is required to “re-evaluate foster parents and foster homes annually and request criminal record and Central Registry checks for adult household members”. Additionally, the CORI process is required during various stages of an eligible foster care provider’s term with the Department. First, the prospective foster or pre-adoptive family must complete an initial eligibility screening process. This process determines whether or not the individual who is interested in serving as a DSS family resource and the members of her/his household age fourteen years and older are eligible to apply for consideration as a prospective resource provider. Secondly, the prospective foster or pre-adoptive family must complete a homestudy evaluation. The home study evaluation is performed to pre-qualify the home and applicant to serve as a DSS family resource. Lastly, annual re-evaluations are performed for current foster or pre-adoptive families to ensure the household continues to be eligible for providing services.

In response to the fiscal year 2002 Single Audit finding, the Department developed a Continuous Quality Improvement Process (CQI) administered in each DSS office – area, regional and central offices. The goals of Continuous Quality Improvement Teams are to monitor, evaluate, and provide feedback to the Department on the performance of its system of care. A list of indicators to include in the CQI process and the data sources available to measure the status of the indicators has been made available to senior management throughout the Department. Data on Family Resource Licensing is one of the many review indicators and the tool to measure the status of the licensing family resources is the monthly report of “Resource Characteristics”. This report is accessible on the DocDirect management reporting system maintained by the Department. The area office family resource worker and the area director are responsible to review the report monthly and identify cases due for annual home re-evaluations or licensing reviews. The report captures the evaluation/assessment history of all foster parents/foster homes providing services by type and date and is updated on the 2nd day of the month by Region/by Area Office from data inputted to FamilyNet by the area office caseworkers. This report presents comprehensive data including identifying the resource parent information, approved capacity and the names of the children placed in the home. The report delineates for each case the Recent Approved Assessment Date, Recent Approved Reassessment Date, and Next Assessment Due Date. However, the CQI process and the Doc Direct Reporting System are not fully developed and does not address weaknesses noted.

Department of Social Services Findings on Compliance with Rules and Regulations

Finding Number 52: Timeliness of CORI Checks Needs Improvement (continued)

The development of the CQI process, establishment of the teams and the content of the reviews have been included in senior management meeting discussions. Per discussions with senior management personnel, the CQI process is in its initial stages of implementation and is continually undergoing review.

The lack of a timely re-evaluation could result in children being placed in an unsafe environment, does not comply with Department policy and may result in ineligible claims for federal reimbursement. (*Department of Health and Human Services - Title IV-E Foster Care Program 93.658; Fiscal Year 2002 Single Audit Finding 55*)

Recommendation

The Department should complete development of the CQI process and DocDirect Reporting System to ensure a timely completion of the annual CORI re-evaluations including implementing an automatic notification to the CORI unit prior to the re-evaluation due date through the FamilyNet system. Also, DSS management should emphasize the importance of completing timely criminal background checks on foster care provider homes, and fully utilizing the electronic process to inform the central CORI office of checks that need to be performed.

Department Corrective Action Plan

The Department will continue towards the completion and implementation of the CQI process and DocDirect Reporting System, as noted in the fiscal year 2002 Single Audit Corrective Action Plan for Finding #1, to assist in timely initiation and completion of annual CORI re-evaluations. This will include a feasibility study for the possible development and implementation of an automatic Annual Re-evaluation BRC/CORI Request to the CORI unit, prior to the re-evaluation due date, through the FamilyNet system. DSS management will continue to emphasize the importance of completing timely criminal background checks on foster care providers, and fully utilizing the FamilyNet system to inform Family Resource staff and the Central CORI Unit of checks that need to be performed.

Responsible person: Susan Getman, Deputy Commissioner, Field Operations
Implementation date: February 2004

Department of Social Services Findings on Compliance with Rules and Regulations

Finding Number 53: The Process for Home Licensing Needs Improvement

In three of the twenty-five Title IV-E cases tested, the Department of Social Services (Department or DSS) placed children in homes prior to completing proper licensing requirements. In one of these cases as of June 30, 2003, the foster care home was a kinship home and proper licensing was not performed 12 months after the placement of the child. The second case was a kinship placement with an annual license reassessment overdue by 15 months. The third case was a child specific placement and the licensing study was initiated 9 months after the child placement, which is outside the 40-day emergency placement period.

A review of the Children in Unapproved Homes Report noted that as of July 21, 2003, 641 children were placed in foster homes prior to the home being licensed. Of those, 348 children were placed in unlicensed homes for more than 40 days and less than one year, 16 children were placed in unlicensed homes for 1 to 2 years and 6 children were placed in unlicensed homes for 2 to 5 years. There are approximately 7,800 children in foster care homes. Department officials explained that in situations involving kinship or child specific placements, the Department is allowed, under emergency provisions, to place the child in the home for 40 working days before a license is issued. They further explained that the abovementioned report does not take into account these allowed exceptions. However, these exceptions were taken into consideration for purposes of our review and analysis of the data. Discussions with Department Officials noted that exceptions indicated are due to the fact that these deficiencies are not being identified at the regional offices.

In response to the fiscal year 2002 Single Audit finding, the Department implemented a Continuous Quality Improvement Process (CQI) administered in each DSS office – area, regional and central offices. The CQI Teams were established to monitor, evaluate and provide feedback to the Department on the performance of its system of care. Data on the number of children in unapproved homes is one of many indicators being routinely reviewed and the tool to measure the status continues to be the monthly report of Children in Unapproved Homes. Senior management meeting discussion agendas have included the Children in Unapproved Homes Report and the Licensing of foster care homes. Per discussions with management personnel, the CQI process is in its initial stages of implementation and is still under review.

To identify homes requiring immediate licensing approvals and timely reviews, the Department also implemented a monthly report available to area office personnel on the DocDirect management reporting system maintained by the Department entitled “Unapproved Homes with Active Placements”. The report captures all foster homes with active placements and no licensing approval by Region/Area Office. The report presents comprehensive data identifying the consumer name, birth date, consumer ID#, case ID#, case worker name, placement start date, family resource name and resource worker and services provided. Area managerial staff is responsible to perform license reviews to ensure licensing approvals are completed in compliance with Department policy.

Federal regulation, 42 USC 671(a)(10) and 672(c), requires that a provider, whether a foster family home or a child-care institution, must be fully licensed by the proper State Foster Care licensing authority. In Massachusetts, the licensing authority for foster family homes is the Department. Federal regulation, 45 CFR 1356.30(f), further requires that the licensing file for a child-care institution must contain documentation which verifies that safety considerations with respect to staff of the institution have been addressed. The licensing process is not only to ensure that the facility is safe for child placement but also that the staff who work at the facility have had background checks.

The lack of proper licensing could result in children being placed in an unsafe environment, does not comply with Department policy and results in ineligible claims for federal reimbursement. (*Department of Health and Human Services-Title IV-E Foster Care Program 93.658; Fiscal Year 2002 Single Audit Finding 56*)

Department of Social Services Findings on Compliance with Rules and Regulations

Finding Number 53: The Process for Home Licensing Needs Improvement (continued)

Recommendation

The Department should identify foster care homes that require immediate licensing approvals and develop a process to ensure the homes identified as unlicensed obtain a timely review. Additionally, a process for central monitoring and oversight should be implemented to address deficiencies that are not being identified at the regional offices. As part of the CQI process, the Department should review procedures and recognize the safety hazards that exist by placing children in unlicensed homes. Lastly, the Department should maximize federally-reimbursable expenditures by ensuring the timely performance of licensing reviews that would have been otherwise non-reimbursable.

Department Corrective Action Plan

Representatives from the Field Operations Division will work with A&F and FamilyNet (IT) staff in designing and developing a status report of foster home licenses, by area office. The report will provide an analysis of the timeliness of license reviews completed as well as any that may remain outstanding. As well, staff must investigate how to better integrate and to translate the licensing tickler information on family resource workers' FamilyNet tickler tab into the regional CQI process.

Responsible person: Susan Getman, Deputy Commissioner, Field Operations
Implementation date: March 2004

Department of Social Services Findings on Reportable Conditions

Finding Number 54: Controls over FamilyNet and Home Licensing Report Data Need Improvement

A review of 4,079 foster care records in FamilyNet, a local area network implemented by the Department of Social Services (Department or DSS) in February 1998, was performed to determine the Department's compliance with licensing, reassessments and criminal background checks.

The review of the monthly DSS Resource Characteristics Report, compiled from FamilyNet data, issued to area agency personnel to monitor foster care provider licensing and criminal background checks has a 67% error rate. These errors include missing date information, data integrity issues where dates input to the FamilyNet system were inaccurate and annual reassessments including criminal background checks were overdue.

An analysis of the data in the FamilyNet system, as of August 2, 2003, noted the following information. Of the 4,079 files that were reviewed, there were 841 files with the "initial assessment" dates blank which represents the original approval for child placement. There were 1,327 files with the "recent reassessment" dates blank, representing the last reassessment date. There were 162 files with the "next reassessment due" dates blank. There were 114 files where the dates were incorrectly input, and 301 files that indicated that the annual assessments were overdue. This results in a 67% error rate in the files. Additionally, 1,027 files dated after August 2, 2003 with blank initial and reassessment dates were not included in the analysis due to insufficient information. Discussions with Department officials indicated this is partially due to the fact that social workers maintain individual tickler files and that information relating to initial and annual reassessments is not consistently updated on the FamilyNet system.

Department area office personnel input case management data to FamilyNet which includes resource provider name, licensing information including the initial date, most recent date and the next due dates, number of authorized children, and the names of children placed in the resource provider home. From the FamilyNet data, the Department produces monthly reports entitled "Resource Characteristics" and "Unapproved Homes With Active Placements" provided on the DSS DocDirect system to personnel responsible to monitor and conduct foster care providers licensing and criminal background review checks. There is no central office review of information entered into FamilyNet.

The Code of Massachusetts Regulations requires the following:
110 CMR 7.113, states,

"The Department shall annually reassess foster care parents and homes whether unrestricted, kinship or child specific including interviews, case file reviews and criminal background checks and after completing the reassessment issue within ten working days a decision on the re-approval terms and conditions."

110 CMR 18.08 (2)(b) CORI Investigations states,

"(b) The DSS shall conduct a CORI Investigation of any household member age fourteen or older during the initial homestudy/ evaluation of the foster/pre-adoptive home and during the annual reassessment of the foster/pre-adoptive home." Additionally, CFR, Title 45, Part 1356, Section 1356.30(a) states,

"(a) Unless an election provided for in paragraph (d) of this section is made, the State must provide documentation that criminal records checks have been conducted with respect to prospective foster and adoptive parents."

Department of Social Services Findings on Reportable Conditions

Finding Number 54: Controls over FamilyNet and Home Licensing Report Data Need Improvement (continued)

The Department maintains a monthly report entitled Unapproved Homes With Active Placements Report available on the DSS DocDirect system to area agency personnel responsible to ensure the completion of foster care home licensing. Our transaction review, noted that one provider was not located in FamilyNet Resource Data and was not located in the monthly report. DSS personnel stated that a home approval was issued, however, our review noted that a CORI background check had never been completed and therefore the home could not be properly approved. DSS personnel indicated that the monthly reports were a tool for determining licensing reassessment due dates and area office personnel also rely on the hard copy case files and FamilyNet information to determine license assessment dates.

Blank date information and data integrity problems in FamilyNet and monthly reports could result in children being placed in unsafe homes that lack timely initial licensing and annual reassessments. It further results in noncompliance with state and federal laws, rules and regulations and Department policy. (*Department of Health and Human Services-Title IV-E Foster Care Program 93.658*)

Recommendation

The Department should develop a central office oversight control process including periodic reviews of monthly reports and case information entered to the FamilyNet system to ensure that information related to foster care cases and licenses is properly recorded and current. In addition, the Department should develop a summary exception report to facilitate identifying overdue licensing and case reassessment dates by region/area office for review. Department personnel should complete a reconciliation of information in FamilyNet and the manual cases files and perform any overdue reassessments including criminal background checks to ensure that children are being placed and maintained in safe home environments. Further, the Department should stress the importance of updating the FamilyNet system with timely and accurate information in order to maximize its benefits and utilize the system for its intended purpose.

Department Corrective Action Plan

FamilyNet staff, in collaboration with the Family Resource and Background Records Check units, will conduct an analysis of the needed data elements and formatting to better support Central, Regional and Area Office oversight of the family resource management process. This will specifically focus on licensing, re-assessment and criminal background records checks as the key elements for compliance with policy and regulations relative to the safety and well being of the Department's consumers. The analysis will draw on the participation and input of key Department stakeholders from all levels of the agency, and will inform the decision whether to re-tool the existing report, or design a new reporting format specifically designed to support monitoring and compliance activities.

This analysis will commence in November 2003, and result in the availability of an improved reporting tool in the March 2004.

Responsible person: William Geary
Implementation date: March 2004

Department of Social Services Findings not Repeated from Prior Years

1. The Department of Social Services (Department) did not notify subrecipients under the Social Services Block Grant of federal funding received because the supplemental appropriation passed on September 21, 2001 significantly changed the fund splits which is the basis for notifying subrecipients of the amounts of federal and state funds. As a result, the Department could not effectively monitor its subrecipients to comply with Office of Management and Budget Circular A-133. On September 17, 2003, the Department notified its subrecipients for fiscal year 2003, the amount of federal funds received and the need to comply with OMB Circular A-133 audit requirements. (*Fiscal Year 2002 Single Audit Finding 57*)
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Executive Office of Elder Affairs Background

The Executive Office of Elder Affairs was established by Section 2 of Chapter 6A of the Massachusetts General Laws. Its responsibilities include the administration and oversight of various programs and services that benefit older citizens in the Commonwealth in accordance with the requirements of the Older Americans Act of 1965, as amended.

The mission of the Office is to promote dignity, independence and rights of Massachusetts' elders and to support their families through advocacy and the development and management of programs and services.

The Office's responsibilities include the administration and monitoring of protective, supportive and nutritional programs and services for 1.1 million elders including case management and in-home services through the Home Care Program, nutrition, ombudsman services for residents of long term care facilities and assisted living residences and for recipients of services in the community, protective services and a variety of supportive and informational services, including transportation, legal services, health benefits counseling, information and referral and senior center programs. The nutrition program provides education and over eight million meals to elders through home delivered (Meals on Wheels) or congregate meal sites. In addition, the Office is responsible for certifying over 160 Assisted Living Residences and administering Prescription Advantage, the nation's first state sponsored prescription drug insurance plan for seniors age 65 and older and low-income disabled adults. Elder Affairs' programs and services operate through a statewide network providing services to elders through both regional and local agencies which includes 27 regional Aging Services Access Points, 23 Area Agencies on Aging that operates programs authorized under the Older Americans Act, 348 municipal Councils on Aging and 290 senior and drop-in centers.

In fiscal year 2003, the Office administered \$ 315 million with federal funds totaling approximately \$32 million.

The Office's major program is the Cluster of:

<u>CFDA #</u>	<u>Federal Program Description</u>
93.044	Special Programs For The Aging-Title III, Part B- Grants for Supportive Services and Senior Centers
93.045	Special Programs For The Aging-Title III, Part C- Nutrition Services

Executive Office of Elder Affairs Findings on Compliance with Rules and Regulations

Finding Number 55: Federal Reports were not Reconciled with the Commonwealth's Accounting System

As noted in the prior years, the Executive Office of Elder Affairs (Office) did not reconcile the Financial Status Report (SF 269) to the Massachusetts Management Accounting and Reporting System (MMARS), the Commonwealth's accounting system for the Title III Program. A review of fiscal year 2003 SF 269 indicated that, while there were secondary reviews of reports, the Office did not implement a system to ensure that amount compiled and reported by the Office on the SF 269 is reconciled to MMARS. The SF 269 is prepared based on the monthly reports submitted by the various Area Agencies on Aging (AAA), which are then compiled and added with state level administrative expenses. The purpose of the SF 269 is to report the status of federal funds including program expenditures and program revenue. Consequently, the federal government does not have adequate assurance that amounts reported are contained within MMARS and that they are fairly stated.

The OMB Circular A-133 Compliance Supplement Section 3L requires that the Office include all activity within the reporting period to be supported by their underlying accounting records and be fairly presented in accordance with the program requirements.

The Office currently cannot prepare the SF 269 from MMARS due to the commingling of the various components of the Title III Program (Part B, C, D, E and Ombudsman) within three appropriations. This procedure has required the Office to compile information from outside of MMARS in order to report separately the Title III Programs' revenue and expenditures. (*Department of Health and Human Services - Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers 93.044 and Special Programs for the Aging - Title III, Part C - Nutrition Services 93.045; Fiscal Year 2001; 2002 Single Audit Finding 61*)

Recommendation

The Office should establish separate appropriation accounts or sub-organization accounts within MMARS for each federal program. This procedure will ensure that the Office can prepare the SF 269 Report from MMARS and avoid an extensive reconciliation required under the current system.

Department Corrective Action Plan

We agree that more appropriation or sub-organization accounts within MMARS will be helpful, and we will work with the Executive Office of Administration and Finance and the Office of the State Comptroller to develop breakdowns that will facilitate SF 269 reporting. In addition, we will use the Commonwealth's conversion to a new system to replace MMARS effective July 1, 2004 to permanently build in appropriate account and program coding for this purpose.

Even with a more detailed reporting structure in MMARS and its replacement, because reports are prepared on accrual basis, and payments to AAAs for actual expenses are made in arrears, preparation of reports directly from MMARS expenditure records is not really possible without accrual adjustments. Beginning with the report for the period ending 9/30/03, we will document accrual adjustments to MMARS data in the preparation of the SF 269 report, rather than reconciling compilations of Area Agency reports to MMARS data after the fact.

Responsible person: Randal Garten
Implementation date: March 1, 2004

Executive Office of Elder Affairs Findings on Compliance with Rules and Regulations

Finding Number 56: Federal Reports Compiled from Provider Information not Area Agency on Aging Information

The Executive Office of Elder Affairs (Office) included Title IIIC financial information in the Financial Status Report (SF 269) not contained within MMARS or the monthly report from one of the Area Agencies on Aging (AAA). Title IIIC nutrition expenditures from one of the largest AAAs were obtained directly from the nutrition service provider's invoice instead of the AAA's monthly report. The AAA contracts with a nutrition service provider to provide the actual services to Title IIIC clients. The nutrition provider then invoices the AAA who in turn invoices the Office.

The OMB Circular A-133 Compliance Supplement Section 3L requires that the Office include all activity within the reporting period to be supported by their underlying accounting records and be fairly presented in accordance with the program requirements.

The AAA in question is consistently late in providing its monthly report to the Office. As a result, the Office, in order to file its SF 269, obtained the Title IIIC expenditures from the AAA provider's invoices instead. This information is not from the underlying accounting records of the Office or the AAA and consequently the federal government does not have adequate assurance that the amounts reported in the SF269 are properly supported or fairly stated. (*Department of Health and Human Services - Special Programs for the Aging - Title III, Part C - Nutrition Services 93.045*)

Recommendation

The Office should report federal expenditures that are reported directly by the AAAs and recorded within the Office's accounting records. The federal report should be prepared from the underlying accounting records of the Office in order to properly support the federal report. The Office should establish separate appropriation accounts or sub-organization accounts within MMARS for each federal program. This procedure will ensure that the Office can prepare the SF 269 Report from MMARS and avoid an extensive reconciliation required under the current system.

Department Corrective Action Plan

The procedures that Elder Affairs follows to compile Title III federal expenditures on the SF 269 Report do not include using information directly from provider agencies. Elder Affairs' standard procedure is to report expenditure information provided directly from the AAA's. In many cases, independent Nutrition Projects will forward the Elder Affairs' approved Title III-C Standard Invoice to the State as a courtesy. However, payment on the Standard Invoice does not occur until such time that the AAA approves the invoice and submits a duplicate (or adjusted, if necessary) Invoice for payment using the reimbursement procedures in place. Elder Affairs does not pay on the Invoice submitted by independent Nutrition Projects.

In this one particular case, the AAA in question has a history of late reporting of both fiscal and programmatic information. In presenting a complete picture of operations for the period, Elder Affairs reported information from the independent Nutrition Project's Title III-C Standard Invoices for the period October 2002 through March 2003 to report income and expenditures on the SF 269 Report. However, payment for services was not made until the AAA ultimately submitted a request for payment in August 2003 and was reimbursed for expenses incurred. Adjustments to the SF 269, if necessary, will be made during the next fiscal period, April 2003 through September 2003.

Executive Office of Elder Affairs Findings on Compliance with Rules and Regulations

Finding Number 56: Federal Reports Compiled from Provider Information not Area Agency on Aging Information (continued)

Department Corrective Action Plan (continued)

This strategy was initiated as a one-time approach to present the most current figures on the SF 269. In the future, Elder Affairs will continue the long standing practice of prompting and persistently monitoring the AAA in question for all reports required under the Title III program in hopes of receiving data from this agency in a more timely manner. However, if the information is not received timely, the data will be omitted from the SF269 until it is received by Elder Affairs and an adjustment will be made to the subsequent SF269.

Responsible person: Theodore R. Zimmerman, State Planner

Implementation date: October 1, 2003 (for SF 269 Report period ending September 30, 2003)

Executive Office of Elder Affairs Findings on Compliance with Rules and Regulations

Finding Number 57: Indirect Cost Plans not Finalized

As noted in the prior year, the Executive Office of Elder Affairs (Office) needs to develop a final indirect cost plan for fiscal years 1999, 2001, 2002 and 2003. Additionally, during 2002 the fiscal year 2000 plan has been submitted and approved by the Office of the State Comptroller (OSC), however OSC has elected to defer any adjustment of indirect cost recoveries until the other cost allocation plans have been submitted so that any adjustments could be aggregated. The Office also recently completed and submitted to OSC for approval the final indirect cost allocation plan for fiscal years 2001 and 2002. The Office anticipates the submission of the 1999 plan by November 30, 2003. Consequently, \$1,665,976 (charged to the federal programs from 1999 through 2003 remains unsupported.

The Office currently applies a provisional rate of 21% to the federal grants in accordance with a negotiated agreement with the Department of Labor dated October 1, 1996. The agreement stipulates that:

"Commencing with State Fiscal Year 1993, indirect cost rates may be used as a budgetary tool in establishing grant or contract amounts. Nevertheless, only actual indirect costs can be charged to Federal grants and contracts in accordance with cost accounting procedures approved by the Office of Cost Determination...."

The agreement stipulates that the Office may apply a budgetary rate of 40% for all programs beginning July 1, 1996 "until amended" (an actual plan is developed). The Office and the Commonwealth, however, has continued to take a more conservative approach by applying the 21% rate during fiscal year 2003 resulting in a total of \$390,758 of indirect costs charged to the federal programs for fiscal year. Consequently, we are questioning this cost and the prior years' amounts of \$303,108, \$320,186, \$292,100, and \$359,824, and for fiscal years 1999, 2000, 2001, and 2002, respectively.

The Office is allowed to bill federal programs using a provisional rate specified in its Negotiated Agreement with the U.S. Department of Labor. The Agreement states that only actual indirect costs can be charged to federal grants and contracts. The Office is required to compute the actual rate for each fiscal year in accordance with the cost accounting procedures approved in the Office of Elder Affairs' Departmental Cost Allocation Plan. The actual rate should be compared with the provisional rate used to bill federal programs and any recoveries must be credited against the applicable federal program or additional costs may be charged.

Executive Office of Elder Affairs Findings on Compliance with Rules and Regulations

Finding Number 57: Indirect Cost Plans not Finalized (continued)

Since the actual rates have not been finalized and indirect costs not approved or completed for fiscal years 1999, 2000, 2001, 2002, and 2003, the amounts charged to federal programs for indirect cost are still unsupported and will be questioned as follows:

<u>Fiscal Year</u>	<u>CFDA Number</u>	<u>Amount</u>
1999	10.570	\$75,415
2000	10.570	63,196
2001	10.570	66,932
2002	10.570	98,839
2003	10.570	77,336
1999	17.235	16,894
2000	17.235	13,899
2001	17.235	11,012
2002	17.235	27,969
2003	17.235	38,898
1999	84.281	145
2000	84.281	1,216
2001	84.281	1,058
1999	93.044	192,800
2000	93.044	220,088
2001	93.044	196,547
2002	93.044	220,816
2003	93.044	205,574
1999	93.048	4,177
2000	93.048	6,511
2001	93.048	6,858
2002	93.048	2,125
2003	93.048	10,500
1999	93.779	10,052
2000	93.779	9,598
2001	93.779	9,693
2002	93.779	10,075
2003	93.779	9,829
1999	93.994	3,625
2000	93.994	5,678
2003	93.052	48,621
Total		<u>\$1,665,976</u>

(Department of Agriculture - Nutrition Service Incentive 10.570; Department of Labor - Senior Community Service Employment Program 17.235; Department of Education - Eisenhower Professional Development State Grants 84.281; National Family Caregiver Support 93.052; Department of Health and Human Services - Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers 93.044; Special Programs for the Aging - Title IV – and Title II Discretionary Projects 93.048; Centers for Medicare and Medicaid Services (CMS) Research, Demonstration and Evaluations 93.779; Maternal and Child Health Services Block Grants to States 93.994; Fiscal Year 2000; 2002 Single Audit Finding 58)

Executive Office of Elder Affairs Findings on Compliance with Rules and Regulations

Finding Number 57: Indirect Cost Plans not Finalized (continued)

Recommendation

The Office should obtain the actual indirect cost rate from OSC for fiscal years 1999, 2001, 2002, & 2003. When completed the OSC should apply the final rates to each fiscal year and adjust the indirect costs where appropriate. The Office should also ensure timely completion of its fiscal year 2004 plan.

Department Corrective Action Plan

As noted in the finding, Elder Affairs has submitted departmental cost allocation plans for fiscal years 2000, 2001 and 2002 to the Office of the State Comptroller (OSC). In addition, we are currently preparing the plan for fiscal year 1999 and will complete it and submit it to OSC by November 30, 2003.

When we reviewed the fiscal year 2000 plan with OSC to identify variances between indirect cost recoveries and the amounts in the plan, OSC staff indicated they would reconcile variances between recoveries and plan amounts for fiscal years 1999-2002 at the same time. Accordingly, after OSC has reviewed the fiscal year 1999 plan, we will work with them to reconcile indirect costs for fiscal years 1999-2002 and identify overcharges that are to be returned to the grantor agencies.

After the fiscal year 1999 plan is submitted, we will complete the cost allocation plan for fiscal year 2003 by February 27, 2004 and reconcile plan amounts and recoveries for fiscal year 2003. Additionally, we will work with OSC to develop a plan for indirect cost recoveries in fiscal year 2004 based on amounts identified in the plans for fiscal year 2003 and previous years.

Responsible person: Randal Garten
Implementation date: March 31, 2004

Executive Office of Elder Affairs Findings on Compliance with Rules and Regulations

Finding Number 58: Lack of Documentation to Support Period of Availability Requirements

The Executive Office of Elder Affairs (Office) needs to fully document the Title III Programs carry forward of unliquidated balances relating to awards to Area Agencies on Aging (AAA). The Office currently records the unliquidated balances of each AAA's Title III programs on a fiscal year basis within a nonintegrated electronic spreadsheet. The spreadsheet will track an individual AAA's unexpended amount from the prior year's award and determine if the unexpended amount should be reprogrammed into the AAA's current year grant award. However, the total unliquidated balance is not carried forward to the next fiscal year's awards recorded on the *Title III/VII Statement of Grant Award* spreadsheet. As a result, the total unliquidated balance is not supported and it cannot be determined if all obligations were liquidated within the Title III programs' period of availability requirements.

Federal regulation, 42 USC 3024, as depicted in OMB Circular A-133, March 2003 Aging Cluster Compliance Supplement states that:

"Funds are made available to the State annually and must be obligated by the State by the end of the Federal fiscal year in which they were awarded. The State has two years to liquidate all obligations for its administration of the State Plan and for awards to the Area Agencies consistent with its intrastate allocation formula. Therefore in any given year multiple years of funding are being used to provide services Statewide."

The Office has historically used this process and believed this not to be problem because any unliquidated balances from one fiscal year are used first to liquidate expenses in the subsequent fiscal year and are reported in the SF 269 report as such. However, this does not resolve the issue that there is no documentation to support the reprogramming of the entire unobligated awards and that therefore the expenditure of the funds within the two-year period is not properly supported.

(Department of Health and Human Services - Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers 93.044 and Special Programs for the Aging - Title III, Part C - Nutrition Services 93.045)

Recommendation

The Office should include the entire unliquidated balance from the prior fiscal year onto the current fiscal year's *Title III/VII Statement of Grant Award* spreadsheet under a separate line item. Utilizing this procedure the Office will then ensure and document that the entire carry forward amount is included with the current award and is subsequently awarded to the AAAs. Then the expenditure of funds by the AAA within the current year will support the Office's assertion that the entire award from the prior year was liquidated within the current award.

Executive Office of Elder Affairs Findings on Compliance with Rules and Regulations

Finding Number 58: Lack of Documentation to Support Period of Availability Requirements (continued)

Department Corrective Action Plan

In order to more distinctly present the process indicating that all obligations are liquidated within the 'Title III programs' period of availability, Elder Affairs has implemented a method that clearly illustrates the procedures used to obligate unliquidated carry forward funding. A process has been implemented that ensures that all unliquidated obligations are obligated within the timeframe permitted by federal regulations.

For any given fiscal year, the unliquidated obligations that remain within the individual AAA nonintegrated electronic spreadsheets are compared against MMARS to verify their accuracy. Once this verification is complete, the funding is integrated into the current year Title III service contracts based on the funding identity and the formula allocation established within the State Plan on Aging. The process is fully documented and supports Elder Affairs' assertion that all unliquidated obligations from a prior year are liquidated within the current award.

Responsible person: Theodore R. Zimmerman
Implementation date: August 13, 2003

Executive Office of Elder Affairs Findings on Compliance with Rules and Regulations

Finding Number 59: Monitoring of Area Agencies Needs to Continue to Improve

The Executive Office of Elder Affairs (Office) needs to continue to implement its monitoring procedures of the Area Agencies on Aging (AAA) to ensure that funds are being spent in accordance with contract requirements and federal and state regulations and to assess program quality and effectiveness. During fiscal year 2003 the Office implemented a number of improvements in its monitoring of the AAAs by the Title III Programs Administration Unit (Unit). The Unit performs desk reviews of area plans, subgrantee monitoring and development and review of standard invoicing requirements. However, the Office did not implement fully its corrective action plan from fiscal year 2002, including a comprehensive statewide monitoring tool based on federal and state regulations and policies to review AAAs' program quality and effectiveness.

The Office passes Title III federal funds through to AAAs for programs including elderly nutrition and supportive services. OMB Circular A-133 §400(d) lists one of the responsibilities of pass-through entities as:

"Monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations and provisions of contract or grant agreements and that performance goals are achieved."

OMB Circular A-133, Compliance Supplement, Part 3 Section M, Subrecipient Monitoring further states that:

"During-the-Award Monitoring - Monitoring the subrecipient's use of Federal awards through site visits or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved."

"Monitoring activities normally occur through-out the year and may take various forms, such as: Reporting – reviewing financial and performance reports submitted by the subrecipient. Site Visits – performing site visits at the subrecipient to review financial and programmatic records and observe operations. Contact – regular contacts with subrecipients and appropriate inquiries concerning program activities."

In addition to federal regulations, the Commonwealth of Massachusetts' Procurement Policies and Procedures Handbook Chapter 5 Contract Execution and Management: Monitoring and Evaluating Contractor Performance and Compliance states in part:

"The Commonwealth has a responsibility to conduct monitoring and evaluation of the commodities and services it purchases. These activities can assist in identifying and reducing fiscal and programmatic risk as early as possible thus protecting both public funds and clients being served. Contract managers are responsible for monitoring contractor performance and other issues that arise during the life of the contract. In developing monitoring and evaluation procedures, the Commonwealth, through its departments should strive for methods which rely on, among other things, national or industry standards and which are coordinated, cost efficient and appropriate to the level of risk to the Commonwealth in the purchase of the commodities or services."

Executive Office of Elder Affairs Findings on Compliance with Rules and Regulations

Finding Number 59: Monitoring of Area Agencies Needs to Continue to Improve (continued)

Office officials stated that monitoring activities are conducted through monthly and annual financial reports, monthly nutrition program statistical reports, annual programmatic statistical reports, site visits, phone contacts and monthly meetings with AAA Directors. However, programs are not reviewed for effectiveness. By not monitoring subrecipient activity completely, the Office cannot ensure that federal awards are used for authorized purposes in compliance with contracts, laws and regulations, or that fiscal and programmatic records are being maintained. (*Department of Health and Human Services - Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers 93.044 and Special Programs for the Aging – Title III, Part C - Nutrition Services 93.045; Fiscal Year 2001; 2002 Single Audit Finding 59*)

Recommendation

The Office should establish and implement its statewide monitoring tool for fiscal year 2004 to evaluate and assess the AAAs' performance and record keeping for program quality and effectiveness.

Department Corrective Action Plan

The statewide monitoring instrument is complete and ready for implementation. We will begin monitoring visits on a twice-monthly basis in November. Given both internal and external dynamics (e.g., reorganization), monitoring has been delayed by several months. At this moment, mid-November makes best sense in that all of the state's Area Agencies on Aging will have returned their Annual Update document to us by that time, and these will help inform our visits and observations.

Responsible person: Paul Bolger
Implementation date: November 15, 2003

Executive Office of Elder Affairs Findings on Compliance with Rules and Regulations

Finding Number 60: Monitoring of Audit Findings Relating to Area Agency on Aging Needs Improvement

The Executive Office of Elder Affairs (Office) did not issue management decisions on the Title III audit findings disclosed for two of its Area Agency on Aging (AAA) in a timely manner. Two of the 15 AAA audit reports selected for testing contained audit findings. The Office could not provide documentation of management follow-up of these two audit reports.

OMB Circular A-133, Compliance Supplement Part 3 states that:

“A pass through entity should ensure that subrecipient audits are completed within nine months of the end of the subrecipient’s audit period, and should issue a management decision on audit findings within six months after receipt of the subrecipient’s audit report. It should also ensure that subrecipient take timely and appropriate corrective action on all audit findings.”

Office officials indicated that they have policies and procedures relating to audit findings of the AAA. The procedures include issuing a management decision on all audit findings within the required timeline. However, the personnel responsible for following up on subrecipient audit findings did not appear to be aware of these findings and no documentation was provided on management decisions relating to the two AAA audit reports with findings in our testing. (*Department of Health and Human Services - Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers 93.044 and Special Programs for the Aging – Title III, Part C - Nutrition Services 93.045*)

Recommendation

The Office should ensure that policies and procedures relating to AAA audit findings are being implemented through the proper review and supervision of all personnel responsible for resolving audit findings, the timely review of management decision and the AAA’s corrective action.

Department Corrective Action Plan

During the prequalification process for fiscal year 2005, the vendor review will clearly address audit issues identified by the vendors’ auditors as well as any other issue the Agency may find during the review of the uniform financial statements. A corrective action plan will be developed for these vendors and monitored on a quarterly basis.

Responsible person: Neil Petrocelli
Implementation date: February 1, 2004

Executive Office of Elder Affairs

Findings not Repeated from Prior Years

1. The Office federal funds to Area Agencies on Aging (AAA) for reimbursement of program and administrative expenses without sufficient documentation supporting the expenditures. The Office implemented additional documentation requirements for the AAAs for fiscal year 2003. The questioned costs resulting from the 2001 and 2002 Single Audits are still under review by the U.S. Department of Health and Human Services. (*Fiscal Year 2002 Single Audit Finding 60*)
 2. The Office did not comply with Department of Health & Human Services (HHS) federal reporting requirements. Specifically, the Office submitted Financial Status Reports (SF 269) reports with estimated amounts rather than actual or cumulative figures as required by HHS requirements. The Office submitted the SF 269 actual expenditures from the AAA and state level expenses. (*Fiscal Year 2002 Single Audit Finding 62*)
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Massachusetts Rehabilitation Commission Background

The Massachusetts Rehabilitation Commission (Commission) is authorized by Chapter 6, Section 74 of the Massachusetts General Laws. The primary mission of the Commission is to help people who are permanently disabled to live as independently as possible. The Vocational Rehabilitation Division provides education opportunities, job placement, and training for those individuals who are capable of becoming gainfully employed. Disability Determination Services, organizationally part of Commission, works with the Social Security Administration in determining the eligibility of individuals for disability insurance. The disability insurance's objective is to replace part of the earnings lost because of a physical or mental impairment severe enough to prevent a person from working.

The Commission contracts for, and monitors, vocational rehabilitation programs throughout the Commonwealth. It also determines client eligibility for its programs at 29 area and district offices. Disability determinations are made through a network of physician consultants.

In fiscal year 2003, the Commission administrated \$123 million. Federal funds amounted to approximately \$78 million.

The federal funding to the Commission is detailed in the accompanying Schedule of Expenditure of Federal Awards. The Commission's major programs were:

<u>CFDA #</u>	<u>Federal Program Description</u>
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States
96.001	Social Security – Disability Insurance
96.006	Supplemental Security Income

No findings resulted from our audit of these federal award programs.

Department of Housing and Community Development Background

The Department of Housing and Community Development (Department) works with and through local governments and nonprofit organizations to house low – income people and promote sound municipal and neighborhood development. Through a combination of grants and technical assistance, the Department (1) houses low-income families, elderly and handicapped individuals in publicly – owned developments and in private housing supported by rent subsidies, (2) weatherizes the homes of low-income households and provides fuel assistance and, (3) invests state and federal funds in neighborhood housing and community development projects.

For fiscal year 2003, the Department administered approximately \$378 million dollars. Total federal funding was approximately \$351 million dollars.

The federal funding to this department is detailed in the Schedule of Expenditures of Federal Awards. The Department's major federal programs were:

<u>CFDA #</u>	<u>Federal Program Description</u>
14.228	Community Development Block Grants/State's Program
14.871	Section 8 Housing Choice Vouchers
93.568	Low Income Home Energy Assistance Program

No findings resulted from our audit of these federal award programs.

Department of Transitional Assistance Background

The Department of Transitional Assistance's (Department) mission is to provide accurate and timely benefits with respect and courtesy to those in need of the Department's services. In pursuing this goal, the Department provides assistance to over a quarter of a million people in the Commonwealth each month through such programs as Transitional Assistance to Needy Families (TANF), Temporary Aid to Families with Dependent Children (TAFDC), General Relief, Supplemental Security Income and Food Stamps. The Department also operates the employment services program, which provides basic education, skills training, job referral, career counseling, day care, and transportation services to certain AFDC and Food Stamp clients. The TANF Block Grant, which became effective October 1, 1996, and the beginning of the federal fiscal year, substantially changed the federal funding for these programs and merged the AFDC and JOBS programs into TANF.

During fiscal year 2003, the Department administered about \$839.4 million in carrying out its programs. Federal funds, including Federal Food Stamp program funding, amounted to approximately \$623.2 million.

The federal funding to this Department is detailed in the accompanying Schedule of Expenditures of Federal Awards. The Department's major programs were:

<u>CFDA #</u>	<u>Federal Program Description</u>
93.558	Transitional Assistance to Needy Families
10.551	Food Stamps Program
10.561	State Administrative Matching for Food Stamps Program

Department of Transitional Assistance Findings on Compliance with Rules and Regulations

Finding Number 61: Food Stamps Status of Claims Against Household Report Filed with Inaccurate Data

The Food Stamps Report *Status of Claims Against Household (FNS 209)* submitted to the U.S. Department of Agriculture, Food and Consumer Service (USDA/FCS) for the quarter ended December 31, 2002 by the Department of Transitional Assistance (Department) contained cash collection amounts which could not be supported by the Benefit Eligibility and Control On-line Network (BEACON) system. The BEACON system provides the source data for the report but is unable to generate accurate cash collection reports that will reconcile to the BARS Monthly Summary Reports and the FNS-209.

As required by 7 CFR 273.18, the FNS-209 is submitted on a quarterly basis and is used to support the amount of outstanding claims against food stamp recipients and the amount of cash collections and recoupments made during the quarter. The accuracy of these reports is important because the Department must submit to the federal government 65% of the amount collected due to Intentional Program Violations, 80% of the amount collected due to Inadvertent Household Errors and 100% of the amount collected due to State Agency Administrative Errors.

The Department continues to make progress in reconciling BEACON and BARS underlying documentation to the FNS-209. (*Department of Agriculture – Food Stamp Program 10.551; Fiscal Year 1994; 2002 Single Audit Finding 63*)

Recommendation

The Department should continue to attempt to perform quarterly reconciliation's of all FNS-209 Reports that were created with BEACON and BARS generated data.

Department Corrective Action Plan

Department of Transitional Assistance staff believes that the changes made to the FNS 209 Report in late 2001 provide an accurate representation of the receivable balance and quarterly activity for food stamp accounts. Additional improvements to the reporting process have been made in the last year. Source data is consistently and uniformly reported on the FNS 209 report and the supporting detail report. BEACON monthly summary reports do not balance to the quarterly totals shown on the FNS 209 Report.

To address reconciliation of the BARS Monthly Summary Report and the FNS 209 Report, the DTA Recovery Unit has developed an Excel Spreadsheet monthly report, which provides detail of the application of collections by account type.

The Recovery Unit and Management Information Services staff will continue to work to provide a means to reconcile BEACON accounts receivable. We are confident that the information presented in the FNS 209 report accurately reflects collections for each quarter.

Department staff and USDA FNS Northeast Regional Office staff have developed and the DTA has programmed a series of reports, which allow for a line-by-line reconciliation of the FNS 209 report.

We currently estimate that we will be able to produce detail reports and reconcile prior quarterly FNS 209 filings by early in 2004.

Responsible person: Arthur Locke
Implementation date: March 1, 2004

Department of Transitional Assistance Findings on Compliance with Rules and Regulations

Finding Number 62: Failure to Provide Necessary TANF Case File Verification Forms

The Department of Transitional Assistance (Department) was unable to provide all of the documentation used to verify the eligibility of two of the 25 Temporary Assistance for Needy Family (TANF) recipients tested.

Federal regulations, 42 USC 607 and 608, indicate the general requirements and prohibitions of individuals to be eligible to receive TANF benefits. The State Plan, submitted to the U.S. Department of Health and Human Services, as part of the grant award to participate in the TANF Program, provides the detail procedures of the state's implementation of the federal program. Specifically, one of the requirements for an individual to receive full TANF assistance is documentation that a minor child lives with the parent or other adult caretaker relative. The Department's policy is to verify the living arrangement through school records showing address of the child and name of the relative who is responsible for the child. If this information is not available, the living arrangement may be verified through several other methods. Generally, the Department obtains a school verification notice or a landlord verification form for residency documentation. However, the two case files noted did not contain this required documentation.

Our review of the case files dated back to August 2001, when the Department implemented the Beacon system. Both of these recipients received assistance of \$388 a month or \$9,312 for the two-year period August 2001 to August 2003, date of our fieldwork. The \$18,624 in TANF benefits received by these two recipients for this two-year period is questioned because without these verification documents their eligibility is not properly supported.

The Department believes these missing documents were simply misfiled at the Transitional Assistance Office (TAO). (Department of Health and Human Services – Temporary Assistance for Needy Families 93.558; Fiscal Year 2001; 2002 Single Audit Finding 64)

Recommendation

We recommend that the Department obtain the required verification forms for these two cases to ensure that the recipients are eligible to receive the TANF benefits. The Department should also review the TAO's filing system, policies, and procedures to ensure that there is an adequate system in place for maintaining all required documentation.

Department Corrective Action Plan

The State Auditors found that in two cases out of 25 case files reviewed, certain verifications were lacking, i.e. school verification form and a landlord verification form. However, it is the Department's position that neither of these verifications was in fact required.

Based on TAFDC policy, a dependent child must be living with a relative as defined in 106 CMR: 203.585. They must be living in a place maintained by that relative as a home {106 CMR: 203.595 (A)}. TAFDC policy also stipulates that if verification is necessary, living arrangement is verified by school records {106 CMR 595 (B) (1)}. However, in both cases, we believe that verification of living arrangement was not necessary.

Case #1 – The child in question is the biological child and at the time the review was conducted was only 19 months old. A birth certificate was present in the case record to confirm relationship. There was no reason to question living arrangement.

**Department of Transitional Assistance
Findings on Compliance with Rules and Regulations**

**Finding Number 62: Failure to Provide Necessary TANF Case File Verification Forms
(continued)**

Department Corrective Action Plan

Case #2 – The child in question is a grandchild. The case record contains all required documentation with regard to relationship, as well as documentation from Suffolk Probate Court granting custody of the child to the grantee. As in the aforementioned case, we believe that based on TAFDC policy we have no reason to question living arrangement.

Responsible person: Nancy Salvucci
Implementation date: October 31, 2003

Department of Transitional Assistance Findings on Reportable Conditions

Finding Number 63: The BEACON System Lacks the Appropriate Segregation of Duties

The Benefit Eligibility And Control On-line Network system (BEACON) is an on-line real time, integrated, client server based system used by the Department of Transitional Assistance (the Department) to provide all data necessary to determine eligibility and benefit amounts for the Department's Food Stamps, TAFDC, EAEDC, Emergency Assistance, Employment Services and Child Care Programs. The data is collected and entered on-line in real time by an Assistance Unit Managers (AU Managers) for each eligible household. The system provides access control at different levels of authorization. However, we noted the lack of appropriate segregation of duties that relate to AU Managers with Level 3 access and above. These individuals can enter household data and approve their own cases, resulting in the ability to establish new cases and approve them for payment without them being reviewed or approved by other personnel.

The Department identified this issue in February 2002 and has acknowledged that AU Managers with Level 3 access and above have initiation and approval authority, but have indicated that this is consistent with the controls under the old PACES system and does not pose an internal control weakness. However, the Department indicated at that time that it would implement controls in conjunction with the MIS and field operations divisions along with enhancement to the BEACON system.

Last year's report recommended that the Department develop and periodically review reports which will track those users who both initiate and process case files without supervisory review and recommended that particular attention be paid to these files to ensure that all eligibility determinations have been met and that those personnel are not inappropriately setting up the case files. The Department's response was that (1) Field Operations would develop a monthly report that would track those users who both initiate and process a new case file without supervisory review and (2) Field Operations annually reviews a report to ensure that security levels that would allow one individual to process a case without supervisory review is a rare and uncommon occurrence.

A review of 25 Temporary Assistance for Needy Family (TANF) recipient case files noted that information was both initiated and approved within the BEACON system by one individual for 13 of these cases (52%). It appears, based on this testing, that having one individual process a case without supervisory review happens much more frequently than the Department realizes. Additionally, a considerable amount of management effort would be required to review an exception report developed to identify the cases initiated and approved by the same individual and to ensure that eligibility determinations comply with State and Federal requirements. (*Department of Health and Human Services – Temporary Assistance to Needy Families 93.558; Department of Agriculture – Food Stamps 10.551; Fiscal Year 2002 Single Audit Finding 65*)

Recommendation

We recommend that the Department implement control procedures that require that all BEACON system events that result in an initial benefit payment or a benefit change be reviewed and approved by personnel other than the individual entering the household data. Additionally, periodic reports which track those users who both initiate and process a case independent of a supervisory review should be prepared and reviewed by Department management to ensure that all eligibility determinations have been met.

Department Corrective Action Plan

Field Operations acknowledged this concern in February 2003 yet stipulated that the issue is consistent with the controls under the old PACES system and does not create an internal control weakness. Field Operations developed a report to monitor those individuals given the authority to transact certain case management activities. There are specific parameters for individuals with security levels in BEACON that allow them to

Department of Transitional Assistance Findings on Reportable Conditions

Finding Number 63: The BEACON System Lacks the Appropriate Segregation of Duties (continued)

Department Corrective Action Plan (continued)

process and approve particular case transactions. Case actions that are allowed by one individual are explicity determined by BEACON authorization levels. Examples of types of transactions that cannot be authorized by one individual with authorization level less than 3 are as follows:

Initial Case Openings

Cases Reopened after 30 days

Case Transfers to other TAOs

Adjustment of Reevaluation Dates

Supplemental Payments

The report entitled “All Cases Processed by One Individual” was developed to assist Field Operations in meeting Internal Control mandates that our procedures guarantee a second level review of specific authorizations and a separation of duties. Each month, TAO Directors must review the transactions delineated in the report, validate and confirm that the authorizations were prepared and completed consistent with established guidelines for supervisory sign off. In exceptional circumstances where an Assistance Unit Manager with Benefit Level 3 has been asked to execute the duties of a Supervisor for other Assistance Unit Managers, their individual work must be reviewed and authorized by a Supervisor or Manager. This report identifies all transactions processed by one individual and allows the individual TAO Director to assess the appropriateness of each activity.

The transactions noted in the 13 cases were not ‘case processing’ transactions. Many of the transactions were simply case maintenance activities that are allowed under the procedures followed by Field Operations’ staff for many years. In regard to the recommendations, an individual of a higher grade reviews all initial benefit payments. Some benefit transactions are also permissible.

The report, All Cases Processed by One Individual, serves the purpose of a periodic report.

Responsible person: Nancy Salvucci
Implementation date: October 31, 2003

Department of Transitional Assistance Findings on Compliance with Rules and Regulations

Finding Number 64: TANF Benefit Overpayment

The Department of Transitional Assistance (Department) determined and paid the incorrect assistance for one of the 25 Temporary Assistance for Needy Family (TANF) recipients tested.

As required by federal regulations, 45 CFR sections 261.13 and 251.14 (a) and (b), if an individual refuses to engage in required work, the Department must reduce assistance to the family, at least pro rata, with respect to any period during the month in which the individual so refuses, or may terminate assistance.

The Department denied the disability of an individual, however, coded the individual as disabled within the Department's automatic data processing system, the Benefit Eligibility And Control On-Line Network system (BEACON). The BEACON system because the individual was coded as disabled incorrectly calculated the benefits for the family unit as exempt from the work requirement. The Department subsequently identified the coding error and reduced future benefit payments to the correct benefit payment amount. The Department believes that the coding error was simply an unintentional administrative error and has made no retroactive adjustment for the \$198 overpayment. In reviewing this case file, it was noted that one individual without independent supervisory review or approval entered the household data within the BEACON system (See related Finding Number 63). (*Department of Health and Human Services – Temporary Assistance for Needy Families 93.558*)

Recommendation

We recommend that the Department implement control procedures that require all BEACON system events that result in an initial benefit payment or a benefit change be reviewed and approved by other personnel than the individual entering the household data. Additionally, the Department should request reimbursement for any overpayments resulting from administrative errors.

Department Corrective Action Plan

Please see Field Operations response in regard to Finding # 63 in regard to additional controls in the BEACON system. This case was not processed by one individual, but rather followed the Department hierarchy for processing.

In regard to the specific case mentioned in the finding, Field Operations concurs that the recipient was established as not disabled on 8/22/02; however, the exemption was not changed on BEACON. Field Operations will pursue a recoupment of any/all overpayments for this case and has reviewed the case record in question to determine accurate benefit levels.

Responsible person: Nancy Salvucci
Implementation date: October 31, 2003

Department of Transitional Assistance Findings on Compliance with Rules and Regulations

Finding Number 65: Failure to Perform Federal Tax Information Match

As of April 2002, the Department of Transitional Assistance (Department) is not performing the Federal Tax Information (FTI) data match.

As required by 42 USC 1320b-7 and 45 CFR section 205.55, each state shall participate in the Income Eligibility and Verification System (IEVS) required by section 1137 of the Social Security Act as amended. Under the State Plan the state is required to coordinate data exchanges with other federally-assisted benefit programs, request and use income and benefit information when making eligibility determinations, and adhere to standardized formats and procedures in exchanging information with other programs and agencies. Specifically, the state is required to request and obtain unearned income from the Internal Revenue Service (IRS), though the Federal Tax Information match and utilize the information to the extent such information is useful.

The Department received an interim Safeguard Review Report from the IRS, dated June 2001, which included a finding related to the Department disclosing tax information to the Office of the State Auditor's Bureau of Special Investigations (BSI). Under 26 USC 6103, disclosure of FTI from IEVS is restricted to officers and employees of the receiving agency. Outside (non-agency) personnel (including auditors) are not authorized to access this information either directly or by disclosure from receiving agency personnel. The BSI conducts the Department's criminal fraud referrals and has done so for Massachusetts since the inception of IEVS in 1988. BSI has never been organizationally part of the Department, and therefore the FTI should not have been disclosed to them.

The Department has not taken steps to reinstate the performance of the FTI data match because Department officials believe that the information provided has not proven to be cost-effective in administering the Temporary Assistance for Needy Family (TANF) program. (*Department of Health and Human Services – Temporary Assistance for Needy Families 93.558*)

Recommendation

We recommend that the Department receive written approval from the Administration for Children and Families, a component of the U.S. Department of Health and Human Services (HHS), permitting the Department to exclude the FTI match.

Department Corrective Action Plan

The Department has notified IRS that the match is to be resumed, and will obtain any necessary approvals from HHS if data is not to be used.

Responsible person: Thomas Noonan
Implementation date: September 12, 2003

Commonwealth of Massachusetts
Higher Education
Student Financial Assistance Programs at Other Institutions
Background

As part of the Single Audit of the Commonwealth, the Office of the Comptroller, the Office of the State Auditor of the Commonwealth and Deloitte & Touche LLP entered into a cooperative agreement to provide the necessary audit coverage for the student financial assistance programs funded by the U.S. Department of Education and administered by the Commonwealth's colleges and universities. The institutions selected for audit were determined using a risk-based approach. The institutions covered by this arrangement are as follows:

State Colleges

Bridgewater State College
Fitchburg State College
Framingham State College
Mass. Maritime Academy
Mass. College of Art
Mass. College of Liberal Arts
Salem State College
Westfield State College
Worcester State College

Community Colleges

Berkshire Community College
Bristol Community College
Bunker Hill Community College
Cape Cod Community College
Greenfield Community College
Holyoke Community College
Massasoit Community College
Mass. Bay Community College
Middlesex Community College
Mt. Wachusett Community College
North Shore Community College
Northern Essex Community College
Quinsigamond Community College
Roxbury Community College
Springfield Technical Community College

During fiscal year 2003, the Office of the State Auditor performed the audit of the student financial assistance programs at three institutions selected using the risk-based approach. These institutions were: Roxbury Community College, Salem State College, and Quinsigamond Community College. As a result of these audits, findings are presented for Roxbury Community College.

The University of Massachusetts contracted for an audit in accordance with OMB Circular A-133 for fiscal year 2003 with an independent public accounting firm. Separate reports on compliance, internal controls as well as the Schedule of Expenditures of Federal Awards and Data Collection Form are issued as a result of this audit. The findings resulting from the audit of the University of Massachusetts are excluded from this report.

Institutions of Higher Education Quinsigamond Community College Findings on Compliance with Rules and Regulations

Finding Number 66: Outstanding Checks Need to be Transferred to the Office of the State Treasurer's Unclaimed Check Fund or the Federal Grantee

Quinsigamond Community College (College) needs to expedite its handling of outstanding or returned checks. A review of the College's Financial Aid Bank Account as of June 30, 2003, disclosed four student financial aid checks totaling \$1,319 that have been outstanding for more than two years. In addition, the College's Disbursement Bank Account had 98 checks totaling \$29,602 that have been outstanding from 1 to 3 years. The College determined that the source of funds for these 98 checks were as follows:

<u>Source of Funds</u>	<u>Number of Checks</u>	<u>Amount</u>
State	75	\$18,806
Federal	19	8,434
State and Federal	<u>4</u>	<u>2,360</u>
	98	\$29,602

Fifty-two that of these 102 checks were returned to the College as undeliverable by the U.S. Post Office.

Chapter 29, Section 32 of the Massachusetts General Laws which requires that checks outstanding over 1 year should be transferred to the Office of the State Treasurer's (OST) Unpaid Check Fund (UCF) as follows:

Any check issued by the State Treasurer or by any agent or agency of the Commonwealth, other than checks issued in payment of obligations of the State Board of Retirement and the Teachers' Retirement Board, which is not presented for payment within one year from its date shall be payable only at the Office of the State Treasurer. On the thirtieth day of June in each year, the Comptroller shall transfer to the abandoned property fund all funds, which are identified by the State Treasurer as funds of the Commonwealth, which have remained in the unclaimed check fund for at least one year....

In addition, the College may not be in compliance with federal laws, rules, and regulations that may require the outstanding check funds to be returned to the federal grantee/loan agency.

The College's Internal Control Manual indicates that outstanding checks over 3 years old should be transferred to the OST as abandoned property in accordance with MGL Chapter 200A. However, College officials indicated that they were not aware that outstanding checks over 1 year old should have been transferred to the OST Unclaimed Check fund. The College's policy is to send letters to payees when checks are 6 months old and have not been cashed. The letter indicates that the check has not been cashed and the payee has the opportunity to have the College cancel the original check and issue a new check. The College also sends a letter every six months throughout the three-year period to provide the payees the opportunity to claim their funds before it remits the funds to the OST. (*Department of Education – Federal Supplemental Educational Opportunity Grants 84.007, Federal Work-Study Program 84.033, and Federal Pell Grant Program 84.063*)

Recommendation

The College should change its policy to reflect the proper handling of checks outstanding over 1 year old and transfer checks to the Unclaimed Check Fund within 1 year from its payable date in accordance with Chapter 29, Section 32 of the MGLs. If the College has any questions regarding the transfer of outstanding checks to the UCF it should contact the OST.

**Institutions of Higher Education
Quinsigamond Community College
Findings on Compliance with Rules and Regulations**

Finding Number 66: Outstanding Checks Need to be Transferred to the Office of the State Treasurer's Unclaimed Check Fund or the Federal Grantee (continued)

Recommendation (continued)

The College should determine the source of the outstanding federal check funds and contact the federal agencies with regards to returning the funds to the appropriate agency. In addition, the College should consider sending letters to payees after checks have not been cashed after 3 months.

Department Corrective Action Plan

Effective immediately, the College will begin to transfer funds to the Unclaimed Check Fund in accordance with Chapter 29, Section 32 of the MGL. Nancy Smith, Comptroller, contacted the Cash Management Division of the State Treasurer's Office, as recommended, and has spoken with Cassandra Melody, Payments Coordinator. Ms. Smith will continue to work with the Cash Management Division of the State Treasurer's Office to ensure that proper procedures are followed with the transfer of unclaimed funds. In addition, the College's *Internal Control & Policy Manual* will be updated to reflect this change.

The College's current policy is to return unclaimed federal refund checks to the federal granting agency. In addition, the College is currently in the process of returning unclaimed federal funds to the proper agency. The College has also updated its policy of notifying payees of unclaimed funds after three months instead of after six months (former practice) which is noted on page twelve of the College's *Internal Control & Policy Manual* updated September, 2003.

Responsible person: Nancy Smith, Comptroller
Implementation date: October 20, 2003

Institutions of Higher Education Roxbury Community College Findings on Reportable Conditions

Finding Number 67: Roxbury Community College Administration Needs Improvement

During the fiscal year 2003 Single Audit we found that Roxbury Community College (College) made continued progress in improving its administration over Student Financial Assistance (SFA) Programs and other financial areas.

Our follow-up audit disclosed improvements in addressing six of the prior year's audit issues. The College (1) updated its Internal Control plan; (2) made payment of \$3,901 to the U.S. Department of Education for students who were ineligible to receive Pell awards; (3) complied with the reporting and disclosure of information to students pursuing Title IV Funds; (4) established procedures to identify walk-away students; (5) implemented procedures that required a review of student's satisfactory academic progress before the beginning of each semester; and (6) implemented a new administrative and financial software application as well as internal procedures that automatically checks for identical social security numbers.

The areas cited in last year's report that still need improvements included non-appropriated fund activity not reconciled monthly and the awarding of Pell Grant funds to nine students who did not have a high school diploma or its equivalent.

The College provided us with a corrective action plan on August 13, 2003, which disclosed the status of the prior audit finding as follows:

Many of the findings included in this broad category have been corrected (e.g., The College does have: 1. A comprehensive integrated general ledger system; 2. Improved procedures for identifying and tracking day tuition funds; 3. An accurate listing of students' accounts receivables; 4. Adequate controls for timely remitting employee withholdings to respective third party; 5. Proper segregation of duties between the Financial Aid Department and the Business Office; and 6. Monthly reconciliation of bank account to the general ledger). Nonetheless, the status of this finding is Partial Implementation, as the College recognizes the need to make further improvements in this area. To that end, both the current President of the College and Board of Trustees agree that improved financial management will remain a top priority for this administration.

Our prior audit disclosed that the College's independent audit firm issued a report on its audit of fiscal year 2001 financial statements. The auditor's report identified eight reportable conditions of noncompliance with not only SFA but also overall College matters. The report dated August 20, 2002, indicated that the College did not have (1) a comprehensive integrated general ledger system, (2) formal procedures to verify expenditures, (3) adequate internal controls to verify students for the minimum requirements for financial aid, (4) adequate procedures to track day tuition funds, (5) a listing of student accounts receivables as of June 30, 2001, (6) an adequate system to remit employee withholdings to third parties timely, (7) proper segregation of duties between the Financial Aid Department and the Business Office and (8) one bank account reconciled in a timely manner.

The independent audit firm is currently auditing the College's fiscal year 2002 financial statements and following up on the eight reportable conditions listed above. At the completion of our fieldwork, the IPA had not issued its audit report. (*Department of Education - Federal Supplemental Educational Opportunity Grants 84.007, Federal Work-Study Program 84.033, and Federal Pell Grant Program 84.063; Fiscal Year 2001; 2002 Single Audit Finding 77*)

**Institutions of Higher Education
Roxbury Community College
Findings on Reportable Conditions**

Finding Number 67: Roxbury Community College Administration Needs Improvement (continued)

Recommendation

Roxbury Community College should continue to implement improvements as planned. The College must update and monitor its new electronic management database and financial operating system to ensure that its applications are performing as planned. Correction of prior years audit results reported continually should be monitored to ensure that full corrective action is implemented. The College should continue to review, evaluate, and update current policies and procedures as needed. Responsible College officials should ensure that improvements continue to be made in the administration, documentation, and oversight over SFA programs. All necessary recording of financial awards, activity, and reporting be monitored with any adjustments being made immediately into the College's electronically controlled operating system.

Department Corrective Action Plan

1. Update and Monitoring of the Jenzebar automated data and financial management system

Action: The College will move as expeditiously as possible with the full implementation of this system. Module managers for the various components of operation (i.e., Business Office, Student Financial Assistance, Registrar's Office, Admissions, etc.) will ensure the timely implementation of their particular component of service. The Vice President for Information Technology/ Chief Information Officer will provide leadership and coordination for the overall implementation of the system.

Responsible Person: Module managers (Chuks Okoli, Comptroller; Raymond O'Rourke, SFA Director; Milton Samuels, Admissions Director; Quinton Wilder, Registrar) and
VP for Information Technology (Walter Geer)

Implementation Date: June 30, 2004 with ongoing updates afterwards.

2. Correction of prior year audit results

Action: The College will continue to implement administrative improvements. Improvements that were identified in the August 13, 2003 Corrective Action Plan Update will be continually monitored and reviewed by an internal task force of employees.

Responsible Person: Vice President for Administration and Finance (Carl Willis)

Implementation Date: Ongoing

3. Review, evaluate and update current policies and procedures.

Action: In fiscal year 2003, the College initiated the practice of reviewing and updating its policies and procedures annually. The College has provided the SAO audit team with an updated copy of the departmental and inter-departmental policies and procedures manual. This manual will be reviewed, evaluated, and updated where necessary. Additionally, individual departmental heads will be responsible for their department's compliance with said policies and procedures.

Responsible Person: Vice President for Administration and Finance (Carl Willis)

Implementation Date: June 30, 2004

**Institutions of Higher Education
Roxbury Community College
Findings on Reportable Conditions**

Finding Number 67: Roxbury Community College Administration Needs Improvement (continued)

Department Corrective Action Plan (continued)

4. Continued improvement in the administration, documentation, and oversight of SFA Programs

Action: The overall improvement of SFA administration has been identified as a major priority for Roxbury Community College. It will remain a priority during the years to come.

Responsible Person: College President (Dr. Terrence Gomes) and relevant departmental directors

Implementation Date: Ongoing

5. Recording and adjusting financial activities into Jenzebar system

Action: The College will fully implement the Jenzebar financial system by ensuring that all relevant financial data are entered in a timely manner.

Responsible Person: SFA Director (Raymond O'Rourke), Comptroller (Chuks Okoli) and Vice President for Information Technology (Walter Geer)

Implementation Date: June 30, 2004

Institutions of Higher Education Roxbury Community College Findings on Compliance with Rules and Regulations

Finding Number 68: Students Inappropriately Awarded Pell Grants without a Documented High School Diploma or Equivalent

Our prior audit reported that Roxbury Community College (College) awarded a total of \$31,875 in Pell Grant funds to nine (9) students included in a sample of 25 students receiving Pell Grants, who did not have a high school diploma or its equivalent.

The College provided us with a corrective action plan on August 13, 2003, which indicated, “Although sufficient departmental internal control procedures exist to prevent the recurrence of this finding, cross-departmental communication was problematic. To that end, the College has assembled an Admissions, Registration and Student Financial Assistance Task Force. It is composed of directors and staff from relevant RCC Departments. The mandate of this task force is to assess the current level of interdepartmental controls and procedures, and where necessary, implement needed new ones. Additionally, this task force was developed to facilitate necessary cross-departmental communication.”

Our follow-up review revealed that the College awarded a total of \$29,294 in Pell Grants to 8 students included in a sample of 25 students receiving Pell Grants, who did not have a high school diploma or its equivalent. The 8 student’s admissions files did not contain any evidence that these students had the required high school diploma or its recognized equivalent. However, on October 9, 2003, the College provided us with a high school transcript for four of the eight students.

In addition, the Vice President of Finance informed us that the College administered no Ability to Benefit (ATB) testing during the audit period. ATB testing would provide an alternative eligibility credential for admission.

Federal regulations, 34 CFR 668.32 (e) Student Assistance General Provisions – Subpart C – Student Eligibility, detail students eligibility to receive Title IV, HEA assistance as follows:

(1) Has a high School diploma or its recognized equivalent (2) Has obtained within 12 months before the date the student initially receives Title IV, HEA program assistance, a passing score specified by the Secretary on an independently administered test in accordance with subpart J of this part. Subpart J (34 CFR 668.156) is the ATB provision of this federal regulation that allows an applicant who does not possess a high school diploma or its recognized equivalent to take a three-part test. If the student passes all three parts, he and/or she would be eligible for admission to the institution and would be eligible for federal financial assistance.

As a result, the above 8 students were not eligible for the program award requirements of 34 CFR 668.32(e)(1)&(2) and 34 CFR 668.156, the College’s own admissions requirements and the subsequent awarding of Federal Financial Aid under the Title IV programs. (*Department of Education – Federal Pell Grant Program 84.063; Fiscal Year 2002 Single Audit Finding 73*)

Recommendation

Roxbury Community College should continue reviewing and assessing its practices of tracking students application information by cross-checking that data within the Admissions, Registrar’s, Financial Aid, and Business Offices prior to award of federal Title IV funds as set forth in the mandate of its established task force. The College should review the files of the students in question to determine if they are eligible to receive the Pell Grants and if they are not the funds should be returned to the U.S. Department of Education.

**Institutions of Higher Education
Roxbury Community College
Findings on Compliance with Rules and Regulations**

Finding Number 68: Students Inappropriately Awarded Pell Grants without a Documented High School Diploma or Equivalent (continued)

Department Corrective Action Plan

To date, the College has provided the audit team with copies of high school transcripts for five of the eight students who were identified. The College is still reviewing student files to determine if high school transcripts are available for the remaining three students. If transcripts are not available, and if the College is unsuccessful in retrieving this information, then financial aid awards will be reversed.

Responsible persons: Director of Admissions, Milton Samuels (Retrieval of High School Transcripts);
Student Financial Assistance Director, Raymond O'Rourke (Possible reversal of financial assistance)
Implementation date: December 12, 2003

Institutions of Higher Education Findings Not Repeated from Prior Years

1. Massasoit Community College (College) did not resolve conflicting revenue information in two student files prior to awarding Title IV funds. The College established staff training on the procedures to be followed when verifying student file information and this training is ongoing. Relevant chapters from the Federal Financial Aid Handbook have been reviewed and discussed with the staff. All items requiring verification are documented on either the Verification Worksheet or with additional materials and items not requiring verification are confirmed if there appears to be a discrepancy. The College has documented the verification process in its procedures manual and obtained all the required documents when DOE requested verification. *(Fiscal Year 2002 Single Audit Finding 66)*
2. Massasoit Community College (College) did not notify the National Student Loan Data System (NSLDS) of changes in student enrollment when a student has graduated as required by federal regulations. The College is required to identify and update the loan status of students, including each year's graduates, via periodic Student Status Confirmation Reports (SSCR). The College's IT department has updated the program used to produce SSCR reports to include the graduated student data, and a revised report was run and submitted to NSLDS for the Spring of 2002. The College is now notifying the NSLDS when a student graduates or withdraws as required. *(Fiscal Year 2002 Single Audit Finding 67)*
3. Massasoit Community College (College) incorrectly calculated and applied Title IV Program awards or refunds to three students during the 2001-2002 Program Year. The students received a refund they were not entitled to receive as required by Federal regulation, 34 CFR 668.16(c)(1). The Financial Aid Office will now perform all returns of Title IV refund calculations, and the Bursar's Office accountant will review the calculations prior to disbursing Title IV funds. In addition, a new computer system, Banner, is being incorporated in the Financial Aid Office. This system is programmed with the rules pertinent to awarding, disbursing, and refunding funds according to federal, state and College regulations. The College has documented this new procedure in the Internal Control Manual and is properly calculating refunds. *(Fiscal Year 2002 Single Audit Finding 68)*
4. Massasoit Community College (College) awarded a total of \$3,125 in Pell Grant funds to two students who were not making satisfactory academic progress prior to the second semester of the award year. The College reviewed its practices and received information from the U.S. Department of Education that it was in compliance with federal regulation, 34 CFR 690.75, Determination of Eligibility for Payment, regarding its handling of students not making satisfactory academic progress. Our review of files disclosed no instances of students not making satisfactory academic progress and receiving financial aid. *(Fiscal Year 2002 Single Audit Finding 69)*
5. Massasoit Community College (College) awarded Title IV funds totaling \$11,629 to a ¾ part-time student, whose total costs per Student Expense Budget for 2001-02 were \$8,216. The Financial Aid Director made a professional judgment to allow for the student's special circumstances to increase components beyond the amounts listed in the College's established Student Expense Budget for 2001-02. However, the Financial Aid Director did not fully document the adjustment or the circumstances of her decision in the student's file. The College instituted a new Loan Request Form effective October 1, 2002. This form requires students to itemize their expenses, list the amount and reason for the loan request and attach official documentation regarding their request, such as eviction notices, notice of job termination, etc. The College has included in the policies and procedures manual that all changes must be documented and our review disclosed that all adjustments were documented. *(Fiscal Year 2002 Single Audit Finding 70)*

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6. The 1997 Single Audit found that eight students may be ineligible to receive financial aid because they may have been enrolled in an English as a Second Language (ESL) program, and that the US Department of Education (DOE) was reviewing this matter. The 1998 Single Audit found that the DOE issued its Final Determination Letter on September 18, 1998 and that 3 of the eight students were ineligible to receive Federal Pell Grants totaling \$3,901, however, this decision depended on the final results of the College's continued appeal with DOE. The 2002 single audit revealed that the Secretary of DOE issued a final decision and required RCC to repay the \$3,901. On August 13, 2003, the College returned the \$3,901 to the DOE. *(Fiscal Year 2002 Single Audit Finding 71)*
7. Roxbury Community College (College) did not comply with federal regulations requiring the reporting and disclosing of information to students pursuing Title IV Funds. Our current audit disclosed that the College has updated its website to include a site for the College catalog. A hard copy catalog is also being distributed for the fall semester. In addition, all students currently seeking financial aid are given a detailed student financial aid handbook published by DOE, which outlines all federal student financial assistance programs. *(Fiscal Year 2002 Single Audit Finding 72)*
8. Roxbury Community College (College) did not establish procedures during fiscal year 2002 to identify walk-away Students. Our current audit disclosed that the College has adopted a seven-step procedure to address this occurrence. Additionally, improved communication between the College Faculty and the Registrar's Office has contributed to the initial success of this procedure. Our audit test found no instances of walk-away students being improperly processed through the Student Financial Assistance program. *(Fiscal Year 2002 Single Audit Finding 74)*
9. Roxbury Community College (College) awarded a total of \$3,282 in Federal Pell Grant (Pell) funds to a student included in our sample of 25 students, who was not making satisfactory academic progress prior to the first semester of the award year. Our current review disclosed that the College is implementing procedures that require a review of student's satisfactory academic progress before the beginning of each semester as required by federal regulation. The Registrar's Office regularly runs student grade point averages and reviews satisfactory academic progress in terms of the number of courses completed each semester and for the entire career of the student at the College. *(Fiscal Year 2002 Single Audit Finding 75)*
10. Roxbury Community College (College) awarded \$3,682 in Federal Pell Grants (Pell) to one student, who may have applied to and received Title IV funds from the College under highly questionable and possibly false pretences. Our current audit disclosed that the College's new Jenzabar administrative and financial software automatically checks for identical numbers and sends a message to the staff member that this number is already in the file. Internal College policies now do not permit multiple social security numbers for the same student and the staff member is instructed to check the information or application further. The College has established an internal task force, which has weekly meetings to address this issue and other similar issues. During the current audit, no instances of duplicate social security numbers were found. *(Fiscal Year 2002 Single Audit Finding 76)*
11. Salem State College (College) was not refunding credit balances to students in a timely manner. The Bursar's Office in the Office of Financial Services has enacted several procedures to ensure that students, who are eligible to receive Financial Aid refunds, are processed within the required 14-day period. The Bursar Office has routinely processed refunds within the period required by Financial Aid regulations. *(Fiscal Year 2002 Single Audit Finding 78)*

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12. Salem State College (College) had four students on the list of walk-aways that were identified for which a return of funds calculation should have been made to the Federal Title IV Program (totaling \$98 for Federal Supplemental Education Opportunity Grants Program and \$3,825 for the federal loan programs) and was not. Also, five additional returns of fund calculations were made more than 30-days after the institution determined that the student withdrew (from 37 to 120 days). The College has returned the appropriate funds to the proper programs for the four walk-away students. Over the past year, the College has enacted procedures to effect adherence and participation by all faculty and students in order to identify those students who unofficially “walk-away” from the College. The College is now calculating refunds in accordance with federal regulations, which requires refunds to be made within 30 days after the institution determines that the student withdrew. *(Fiscal Year 2002 Single Audit Finding 79)*
13. Salem State College’s (College) 2002 federal financial reports filed for the Federal Perkins Loan Program (Perkins) and Nursing Student Loans (NSL) did not agree in many aspects with the College’s general ledger. The issue was also reported in the 1999-2001 Single Audit reports. The financial reports were prepared from information supplied by the loan servicing agency, bank account information and internal College records. The general ledger balances and other bank account balances were not consistently included in the Fiscal Operations Report and Application to Participate (FISAP) and the Annual Operating Report (AOR). The College has established proper general ledger accounts, reconciled and reflected Perkins and Nursing activity to the FISAP, and AOR totals to the General Ledger as of June 30, 2003. In addition, the College has resolved differences in Capital Contribution Accounts and made adjustments to conform to FISAP and other agency totals. Finally, the Bursar’s Office has established procedures to appropriately monitor, reconcile, and revise general ledger balances on a monthly basis to College activity. *(Fiscal Year 2002 Single Audit Finding 80)*
14. Salem State College (College) had unreconciled cash balances for both the Federal Pell Grant Program (Pell) and the Federal Supplemental Educational Opportunity Grants Program (FSEOG). The College’s general ledger showed cash deficits of \$68,110 for Pell and \$10,465 FSEOG. Prior single audits (1999-2001) also reported unreconciled cash balances (general ledger to bank statements) and unexplained cash deficits or balances, conditions which are inconsistent with drawing funds only as needed and disbursing funds shortly thereafter. The College has developed a mechanism to drawdown appropriate cash amounts when owed upon final disbursement to a student’s account. At present, all appropriate drawdowns have been processed and ledger accounts adjusted to reflect this activity. In accordance with generally accepted accounting principles, the College reconciles its cash accounts to appropriate bank statements that include all Financial Aid accounts. In addition to the review and reconciliation process for Perkins and Nursing Loans, a similar review is in process for Pell and other Title IV funds. For year ended June 30, 2003, there are no amounts owed to the federal government for any Title IV funds and General Ledger and Cash accounts have been reconciled and reflect appropriate bank activity for the year. . *(Fiscal Year 2002 Single Audit Finding 81).*